

STATE OF NORTH CAROLINA

THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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

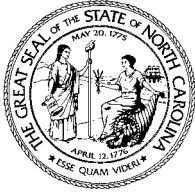
FOR THE YEAR ENDED JUNE 30, 2013

BOARD OF DIRECTORS

DR. NANCY H. BROWN, BOARD CHAIR

ADMINISTRATIVE OFFICER

CINDY WATKINS, PRESIDENT



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA

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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, 2013, 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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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the North Carolina Partnership's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the North Carolina Partnership's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the North Carolina Partnership's internal control.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion based on our audit, 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, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 a 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 our audit of the basic financial statements. 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2014 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Carolina Partnership's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 15, 2014

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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 for Children, Inc.'s (North Carolina Partnership) management in conjunction with the issuance of the accompanying financial statements.

Overview of the Basic Financial Statements

The *Statement of Net Position* provides information relative to the North Carolina Partnership's assets, liabilities, and net position 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 position on this statement is categorized as either invested in capital assets, restricted or unrestricted. Restricted net position is categorized as either nonexpendable or expendable. Overall, the *Statement of Net Position* 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 Position* provides information relative to the results of the North Carolina Partnership's operations, nonoperating activities, and other activities affecting net position 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. Other activities include capital gifts or grants. Overall the *Statement of Revenues, Expenses, and Changes in Net Position* 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 position 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 Position* as adjusted for changes in beginning and ending balances of noncash accounts on the *Statement of Net Position*.

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 additional detail and explanation about the 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 76 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 in North Carolina 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 position as of June 30, 2013 and June 30, 2012, were approximately \$2.2 million and \$2.5 million, respectively, a decrease of approximately \$300,000 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 position as of June 30, 2013 and 2012.

Condensed Statement of Net Position
June 30, 2013 and 2012
(in thousands)

	2013	2012	Percent Change
Assets			
Current Assets	\$ 3,125	\$ 3,216	(2.8) %
Capital Assets, Net	124	135	(8.1) %
Other Noncurrent Assets	770	763	0.9 %
Total Assets	4,019	4,114	(2.3) %
Liabilities			
Current Liabilities	1,711	1,476	15.9 %
Noncurrent Liabilities	91	125	(27.2) %
Total Liabilities	1,802	1,601	12.6 %
Net Position			
Invested in Capital Assets	124	135	(8.1) %
Restricted:			
Nonexpendable	23	23	0.0 %
Expendable	12	14	(14.3) %
Unrestricted	2,058	2,341	(12.1) %
Total Net Position	\$ 2,217	\$ 2,513	(11.8) %

Current assets as of June 30, 2013, consisted primarily of cash and equivalents, \$1.3 million, investments, \$718,000, receivables, \$984,000, and prepaid expenses, \$110,000. 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 decreased during the fiscal year June 30, 2013, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital and Other Noncurrent Assets

Noncurrent assets as of June 30, 2013, primarily consisted of investments, \$770,000 and capital assets, \$124,000. Noncurrent assets as of June 30, 2012, primarily consisted of investments, \$763,000 and capital assets, \$135,000.

Liabilities

Current liabilities as of June 30, 2013, consisted primarily of funds due to the State, \$548,000, and unearned revenue, \$879,000. Current liabilities as of June 30, 2012, primarily consisted of funds due to the State \$675,000, and unearned revenue, \$551,000. The net increase in current liabilities is primarily caused by the \$328,000 increase in the unearned revenue balance for cost-reimbursement contracts with Blue Cross Blue Shield of North Carolina Foundation and other grantors.

As of June 30, 2013 and 2012, there were noncurrent liabilities that consisted entirely of accrued compensated absences.

Net Position

Net position invested in capital assets were \$124,000 and \$135,000 as of June 30, 2013 and 2012, respectively. Restricted nonexpendable net position of \$23,000 as of June 30, 2013 and 2012, represent amounts subject to externally imposed restrictions and which must be maintained in perpetuity.

Restricted expendable net position of \$12,000 and \$14,000 as of June 30, 2013 and 2012, respectively, represent amounts subject to externally imposed restrictions. Unrestricted net position of \$2.1 and \$2.3 million as of June 30, 2013 and 2012, respectively, represent amounts not subject to externally imposed stipulations, but internally designated for various activities and initiatives.

For the year ended June 30, 2013, the decrease in net position of \$296,000 is primarily attributable to the \$283,000 decrease in unrestricted funds as these were used during the year for various activities and initiatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Revenues, Expenses, and Changes in Net Position present 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 position for the years ended June 30, 2013 and 2012.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012
(in thousands)

	2013 Amount	2012 Amount	Percentage Change
Operating Revenues	\$ 0	\$ 0	0.0 %
Operating Expenses	(5,255)	(5,455)	(3.7) %
Operating Loss	(5,255)	(5,455)	(3.7) %
Nonoperating Revenues	99,066	98,281	0.8 %
Nonoperating Expenses	(94,107)	(94,113)	0.0 %
Increase (Decrease) In Net Position	(296)	(1,287)	(77.0) %
Net Position Beginning of Year	2,513	3,800	(33.9) %
Net Position End of Year	\$ 2,217	\$ 2,513	(11.8) %

Nonoperating Revenues

For the fiscal year ended June 30, 2013, nonoperating revenues totaled \$99.1 million, of which state aid was \$96.6 million. For the fiscal year ended June 30, 2012, nonoperating revenues totaled \$98.3 million, of which state aid was \$96.9 million.

Private contributions earned were \$1.0 million and \$1.2 million as of June 30, 2013 and 2012, respectively. Major contributors for 2013 were the Blue Cross Blue Shield of North Carolina Foundation for \$820,000, and the Z. Smith Reynolds Foundation, \$107,000.

Additionally, NCPC received federal funds of \$1.3 million for the Early Learning Challenge grant.

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, 2013 and 2012
(in thousands)

	2013 Amount	2012 Amount	Percentage Change
Operating Expenses:			
Salaries and Benefits	\$ 3,475	\$ 3,160	10.0 %
Contracted Services	835	1,350	(38.1) %
Other Operating Expenses	891	886	0.6 %
Depreciation	54	59	(8.5) %
Total Operating Expense	<u>\$ 5,255</u>	<u>\$ 5,455</u>	<u>(3.7) %</u>
Nonoperating Expenses:			
Loss on Disposal of Capital Assets	\$ 0	\$ 4	(100.0) %
Contract/Grant Expense	94,107	94,109	0.0 %
Total Nonoperating Expense	<u>\$ 94,107</u>	<u>\$ 94,113</u>	<u>0.0 %</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.

Economic Factors That Will Affect the Future

The three main factors that impact the economic outlook for the North Carolina Partnership are private contributions as well as federal 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, 2013, private contributions decreased as compared to the fiscal year ended June 30, 2012. This decrease is the result of an unfavorable environment for private contributions, however, it is anticipated that the state of the economy will improve for the fiscal year ending June 30, 2014 and possibly beyond.

The North Carolina Partnership for Children, Inc.
Statement of Net Position
For the Year Ended June 30, 2013

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 341,506
Restricted Cash and Cash Equivalents	971,074
Short-Term Investments	718,124
Receivables:	
Accounts Receivable (Note 3)	419,682
Federal Aid Receivable (Note 3)	548,669
Pledges Receivable (Note 3)	15,635
Prepaid Expenses	110,410
	<hr/>
Total Current Assets	3,125,100
	<hr/>

Noncurrent Assets:

Investments	769,714
Capital Assets - Depreciable, Net (Note 4)	123,645
	<hr/>
Total Noncurrent Assets	893,359
	<hr/>

Total Assets	<hr/> <hr/> 4,018,459
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LIABILITIES

Current Liabilities:

Accounts Payable	96,254
Accrued Payroll	85,382
Compensated Absences (Note 5)	36,759
Due to the State	548,096
Unearned Revenue	878,609
Funds Held for Others	65,585
	<hr/>
Total Current Liabilities	1,710,685
	<hr/>

Noncurrent Liabilities:

Compensated Absences (Note 5)	90,669
	<hr/>
Total Noncurrent Liabilities	90,669
	<hr/>

Total Liabilities	<hr/> <hr/> 1,801,354
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NET POSITION

Investment in Capital Assets	123,645
Restricted for:	
Nonexpendable:	
Annual Recognition Award	23,287
Expendable:	
Specific Child Care Related Activities	12,205
Unrestricted	2,057,968
	<hr/>
Total Net Position	<hr/> <hr/> \$ 2,217,105

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 Position
For the Year Ended June 30, 2013***

Exhibit B

OPERATING REVENUES	\$ 0
<hr/>	
OPERATING EXPENSES	
Salaries and Benefits	3,474,988
Contracted Services	834,627
Supplies and Materials	47,935
Other Operating Expenses	465,687
Fixed Charges and Other Expenses	335,958
Purchase of Noncapitalized Equipment	42,404
Depreciation	53,839
	<hr/>
Total Operating Expenses	5,255,438
	<hr/>
Operating Loss	(5,255,438)
	<hr/>
NONOPERATING REVENUES (EXPENSES)	
State Aid	96,572,415
Federal Aid	1,264,414
Investment Income	10,026
Private Contributions	1,040,584
Miscellaneous	179,170
Contract/Grant Expense	(94,106,725)
	<hr/>
Total Nonoperating Revenues (Expenses)	4,959,884
	<hr/>
Net Decrease in Net Position	(295,554)
	<hr/>
NET POSITION	
Net Position - July 1, 2012	2,512,659
	<hr/>
Net Position - June 30, 2013	\$ 2,217,105
	<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, 2013

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Payments to Employees and Fringe Benefits	\$ (3,455,637)
Payments to Vendors and Suppliers	<u>(1,748,439)</u>
Cash Used by Operating Activities	<u>(5,204,076)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	96,445,090
Grants to Local Partnerships and Other Organizations	(93,976,130)
Federal Aid Received	715,745
Private Contributions	1,362,377
Other Receipts	<u>179,170</u>
Net Cash Provided by Noncapital Financing Activities	<u>4,726,252</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	<u>(42,740)</u>
Cash Used by Capital and Related Financing Activities	<u>(42,740)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of Non-State Treasurer Investments	(15,038)
Investment Income	<u>8,998</u>
Net Cash Used by Investing Activities	<u>(6,040)</u>

Net Decrease in Cash and Cash Equivalents	(526,604)
Cash and Cash Equivalents - July 1, 2012	<u>1,839,184</u>
Cash and Cash Equivalents - June 30, 2013	<u>\$ 1,312,580</u>

RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (5,255,438)
Adjustments to Reconcile Operating Loss to Cash Used by Operating Activities:	
Depreciation Expense	53,839
Changes in Assets and Liabilities:	
Accounts Receivable	256
Prepaid Expenses	(2,920)
Accounts Payable	(19,163)
Accrued Payroll	20,691
Compensated Absences	<u>(1,341)</u>
Cash Used by Operating Activities	<u>\$ (5,204,076)</u>

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, 2013

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 76) 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.

- 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.

- 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 (STIF). The STIF 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, and endowment and other restricted investments. The endowment fund of \$23,287 is included in the money market mutual funds amount.
- 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.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Position - The North Carolina Partnership's net position is classified as follows:

Investment in Capital Assets - This represents the North Carolina Partnership's total investment in capital assets net of depreciation.

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position consists of an endowment for which the use is limited by the donors or other outside sources. As a condition of the gift, the principal is generally not distributed, thus building a permanent and growing support for the endowment objective. However, it is the wish of the donor that an amount of \$1,000 be made annually, even if the principal must be utilized. Any expenditure of principal must be approved by the Trustees of the endowment.

Restricted Net Position - Expendable - Expendable restricted net position includes 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 Position - Unrestricted net position includes 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 Position. 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 amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$250, deposits in private financial institutions with a carrying value of \$1,224,917, and a bank balance of \$1,553,027 and deposits held by the State Treasurer totaling \$87,413.

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions and represents the North Carolina Partnership's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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 1.6 years as of June 30, 2013. Assets and shares of the STIF 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 STIF) 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 \$1,307,785 at June 30, 2013.

- 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.

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, 2013, for the North Carolina Partnership's investments.

Investment Type	<u>Fair Value</u>	<u>Properties of Debt Securities</u>	
		Weighted Average Maturities	<u>Ratings</u>
Debt Securities:			
Money Market Mutual Funds	\$ 718,124	25 days	Unrated
Other Securities:			
Certificates of Deposit	<u>769,714</u>		
Total Investments	<u>\$ 1,487,838</u>		

The money market mutual funds invested in a brokerage firm are not insured or guaranteed by the FDIC. The certificates of deposit held by private financial institutions are insured by the FDIC. The North Carolina Partnership's investment deposits in excess of the FDIC insured limit totaled \$532,102 at June 30, 2013.

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, 2013, is as follows:

	Amount
Cash on Hand	\$ 250
Carrying Amount of Deposit with Private Financial Institutions	1,224,917
Investments in the Short-Term Investment Fund	87,413
Money Market Mutual Funds	718,124
Investments in Certificates of Deposit	769,714
Total Deposits and Investments	\$ 2,800,418
Current:	
Cash and Cash Equivalents	\$ 341,506
Restricted Cash and Cash Equivalents	971,074
Short-Term Investments	718,124
Noncurrent:	
Investments	769,714
Total Deposits and Investments	\$ 2,800,418

NOTE 3 - RECEIVABLES

A. Accounts Receivable - The gross accounts receivable were:

	June 30, 2013
Due from Local Partnership Grantees	\$ 381,313
Interest Receivable	12,388
Sales Tax Receivable	18,827
Other Receivables	7,154
Total Accounts Receivable	\$ 419,682

The North Carolina Partnership expects to collect these receivables.

- B. Federal Aid Receivable** - The North Carolina Partnership has federal aid receivables in the amount of \$548,669 that are collectible in the fiscal year ending June 30, 2014. The receivables represent reimbursement for the Race to the Top - Early Learning Challenge Grant.
- C. Pledges Receivable** - The North Carolina Partnership has pledges receivable in the amount of \$15,635 that are collectible in the fiscal year ending June 30, 2014. 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, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital Assets - Depreciable:				
Machinery and Equipment	\$ 438,574	\$ 42,740	\$ 28,037	\$ 453,277
Less Accumulated Depreciation	303,830	53,839	28,037	329,632
Capital Assets - Depreciable, Net	\$ 134,744	\$ (11,099)	\$ 0	\$ 123,645

NOTE 5 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Current Portion
Compensated Absences	\$ 128,769	\$ 284,149	\$ 285,490	\$ 127,428	\$ 36,759

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, 2013:

Fiscal Year	Operating Leases
2014	\$ 312,252
2015	265,609
Total Minimum Lease Payments	\$ 577,861

The North Carolina Partnership has the right to extend the term of the operating lease for office rent for one additional, consecutive, uninterrupted term of five years commencing on May 1, 2015.

Rental expense for all operating leases during the year was \$306,840.

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 Position. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

address change at the individual, programmatic, environmental and policy levels.

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.

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 - PENSION 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

employer contributions. For the year ended June 30, 2013, the North Carolina Partnership's Plan contributions were \$167,946.

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.

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 \$2,969,227 as of June 30, 2013.

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The North Carolina Partnership for Children, Inc.
Schedule of Functional Expenses
For the Year Ended June 30, 2013

Schedule 1

	Total	Salaries and Benefits	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Noncapitalized Equipment/Depreciation	Contract/Grant Expense
Programs:								
Comprehensive Training Events	\$ 226,914	\$ 25,678	\$ 76,420	\$ 70	\$ 120,705	\$ 3,503	\$ 0	\$ 538
Early Learning Challenge Grant	1,285,513	487,702	251,639	1,855	52,718	537	9,195	481,867
Finance	393,243	171,972	215,139		2,835	3,297		
Financial Services	214,753	200,846			13,907			
Local Partnership Administration	11,551,392							11,551,392
Local Partnership Services	80,236,698							80,236,698
Organizational Development	88,657	53,355	15,873	89	16,945			2,395
Program and Evaluation	699,020	573,618	94,951		8,843	458		21,150
Public Information	607,636	282,571	75,648	442	44,162	3,808		201,005
Regional Accounting (MAC)	1,383,390	300,636	4,710	19,649	101,307	75	4,516	952,497
Shape NC	824,363	87,384	80,841		327	8,773	1,596	645,183
Technology	282,465	208,284		12,860	33,259	2,797	25,265	
	<u>97,794,044</u>	<u>2,392,046</u>	<u>815,221</u>	<u>35,292</u>	<u>403,454</u>	<u>14,734</u>	<u>40,572</u>	<u>94,092,725</u>
Support:								
Administration	1,192,733	727,298	6,994	12,643	56,296	319,831	55,671	14,000
Contracts	178,129	177,699			430			
Development	2,050		2,000			50		
Fiscal	147,152	137,589	8,247		1,316			
Human Resources	48,055	40,356	2,165		4,191	1,343		
	<u>1,568,119</u>	<u>1,082,942</u>	<u>19,406</u>	<u>12,643</u>	<u>62,233</u>	<u>321,224</u>	<u>55,671</u>	<u>14,000</u>
Total Expenditures	<u>\$ 99,362,163</u>	<u>\$ 3,474,988</u>	<u>\$ 834,627</u>	<u>\$ 47,935</u>	<u>\$ 465,687</u>	<u>\$ 335,958</u>	<u>\$ 96,243</u>	<u>\$ 94,106,725</u>

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2013

Schedule 2

Organization Name	Gross Amount Expended	Refund Due	Net Amount Expended
Alamance Partnership for Children	\$ 923,183	\$ (5,958)	\$ 917,225
Albemarle Smart Start Partnership, Inc.	1,873,641	(12,782)	1,860,859
Alexander County Partnership for Children, Inc.	355,914	(9,157)	346,756
Alleghany Partnership for Children, Inc.	120,071		120,071
Alliance for Children	1,404,194	(3,821)	1,400,373
Anson County Partnership for Children	380,264		380,264
Ashe County Partnership for Children	295,359		295,359
Avery County Smart Start: A Partnership for Children	190,882		190,882
Beaufort/Hyde Partnership for Children	625,225	(38)	625,187
Bladen Smart Start-A Partnership for Children, Inc.	367,914	(7,039)	360,875
Buncombe County Partnership for Children, Inc.	* 1,673,765		1,673,765
Burke County Smart Start, Inc.	1,257,288	(1,533)	1,255,754
Cabarrus County Partnership for Children	1,445,805	(6,836)	1,438,969
Caldwell County Smart Start A Partnership for Young Children	955,654	(6,074)	949,580
Carteret County Partnership for Children	676,752		676,752
Caswell County Partnership for Children	234,550	(3,601)	230,949
Catawba County Partnership for Children	1,556,786	(4,369)	1,552,417
Chatham County Partnership for Children	704,003	(10,097)	693,906
Children and Youth Partnership for Dare County, Inc.	321,135	(863)	320,272
Children's Council of Watauga County, Inc.	270,324		270,324
Cleveland County Partnership for Children, Inc.	* 978,273	(1,099)	977,174
Columbus County Partnership for Children, Incorporated	481,266	(8,466)	472,800
Craven Smart Start, Inc.	1,045,900	(3,817)	1,042,083
Down East Partnership for Children	2,475,995	(22,723)	2,453,272
Duplin County Partnership for Children	1,167,246	(811)	1,166,435
Durham's Partnership for Children	5,181,183		5,181,183
Franklin-Granville-Vance Smart Start	1,456,414	(25,215)	1,431,199
Guilford County Partnership for Children, Inc.	3,277,008	(35,805)	3,241,202
Harnett County Partnership for Children, Inc.	959,548	(2,504)	957,044
Hertford-Northampton Smart Start Partnership for Children, Inc.	475,095	(16,319)	458,776
Hoke County Partnership for Children and Families	779,618	(604)	779,014
Iredell County Partnership for Young Children, Inc.	1,316,671	(5,287)	1,311,384
Jones County Partnership for Children	220,055		220,055
Lee County Partnership for Children	977,982	(611)	977,371
Lenoir/Greene County Partnership for Children	1,574,354	(1,562)	1,572,792
Madison County Partnership for Children and Families, Inc.	266,653	(151)	266,502
Martin/Pitt Partnership for Children, Inc.	1,484,280	(8,576)	1,475,704
Mecklenburg Partnership for Children	7,663,811	(16,480)	7,647,332
Montgomery County Partnership for Children	547,429		547,429
Onslow County Partnership for Children, Inc.	2,620,821		2,620,821
Orange County Partnership for Young Children	909,483	(63)	909,420
Pamlico Partnership for Children, Inc.	135,037		135,037

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2013

Schedule 2
Page 2

Organization Name	Gross Amount Expended	Refund Due	Net Amount Expended
Partners for Children and Families, Inc.	684,289		684,289
Partnership for Children of Cumberland County, Inc.	4,048,064	(3,062)	4,045,003
Partnership for Children of Johnston County, Inc.	1,402,239	(4,046)	1,398,193
Partnership for Children of Lincoln/Gaston Counties, Inc.	2,164,859	(38,055)	2,126,803
Partnership for Children of the Foothills	970,162	(9,221)	960,941
Person County Partnership for Children	458,191	(1,679)	456,512
Randolph County Partnership for Children	1,099,985	(24,968)	1,075,017
Region A Partnership for Children	1,257,717	(6,627)	1,251,090
Richmond County Partnership for Children	764,720	(469)	764,251
Robeson County Partnership for Children	1,715,392	(3,483)	1,711,909
Rockingham County Partnership for Children, Inc.	718,958		718,958
Sampson County Partnership for Children	1,051,496		1,051,496
Scotland County Partnership for Children and Families, Inc.	405,530	(955)	404,575
Smart Start of Brunswick County, Inc.	668,132		668,132
Smart Start of Davidson County, Inc.	2,680,827	(18)	2,680,809
Smart Start of Davie County, Inc.	305,747	(1,269)	304,478
Smart Start of Forsyth County	4,370,162	(50)	4,370,112
Smart Start of Henderson County, Inc.	658,502	(732)	657,770
Smart Start of New Hanover County	1,434,006		1,434,006
Smart Start of Pender County, Inc.	447,112		447,112
Smart Start of Transylvania County	168,004	(358)	167,646
Smart Start of Yadkin County, Inc.	432,190	(1,162)	431,028
Smart Start Rowan, Inc.	1,790,383	(3,453)	1,786,930
Stanly County Partnership for Children	715,365		715,365
Stokes Partnership for Children	479,884	(4)	479,880
Surry County Early Childhood Partnership	656,067	(4,837)	651,230
The Chowan/Perquimans Smart Start Partnership	419,064	(491)	418,572
The Halifax-Warren Smart Start Partnership for Children, Inc.	558,687		558,687
The Mitchell-Yancey County Partnership for Children, Inc.	306,320		306,320
The Partnership for Children of Wayne County, Inc.	936,303	(7,594)	928,709
Tyrrell-Washington Partnership for Children, Inc.	274,348	(1,833)	272,515
Various Other Organizations	526,988		526,988
Wake County SmartStart	6,207,443	(25,203)	6,182,241
Wilkes Community Partnership for Children	814,208	(12,541)	801,667
Wilson County Partnership for Children	1,269,525	(6,602)	1,262,923
	<u>\$ 94,487,695</u>	<u>\$ (380,970)</u>	<u>\$ 94,106,725</u>

* These organizations are represented on the Partnership's Board as described in Note 10 - Related Party Transactions.

***The North Carolina Partnership for Children, Inc.
Schedule of Federal and State Aid
For the Year Ended June 30, 2013***

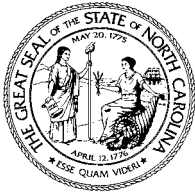
Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Aid:				
United States Department of Education				
Pass-through from the North Carolina Department of Health and Human Services – Division of Public Health				
Pass-through from the Early Childhood Advisory Council				
Race to the Top – Early Learning Challenge	*	N/A	\$ 1,264,414	\$ 1,249,755
State Aid:				
North Carolina Department of Health and Human Services – Division of Child Development and Early Education				
Early Childhood Initiatives Program (Current Year)	**	7089	91,782,590	91,782,590
Early Childhood Initiatives Program (Current Year)	**	7088	4,789,825	4,789,825
Total State Aid			<u>96,572,415</u>	<u>96,572,415</u>
Total Federal and State Aid			<u>\$ 97,836,829</u>	<u>\$ 97,822,170</u>

* 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)*. As such, the North Carolina Partnership's Race to the Top - Early Learning Challenge federal expenditures are included in the State's Schedule of Expenditures of Federal Awards. Those expenditures are covered by the State of North Carolina's *Single Audit Report*, and a separate audit in accordance with the Single Audit Act and OMB Circular A-133 for the North Carolina Partnership is not required.

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

Note: The information on this schedule has been prepared on the accrual basis of accounting.

Office of the State Auditor

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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the North Carolina Partnership's basic financial statements, and have issued our report thereon dated May 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Carolina Partnership's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the North Carolina Partnership's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Carolina Partnership's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North Carolina Partnership's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Carolina Partnership's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 15, 2014

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