

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF  
THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.**

**RALEIGH, NORTH CAROLINA**

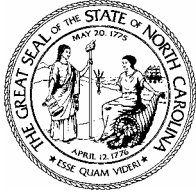
**FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

**BOARD OF DIRECTORS**

**ASHLEY THRIFT, CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**KAREN PONDER, PRESIDENT**



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

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**AUDITOR'S TRANSMITTAL**

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

This report presents the results of our financial statement audit of The North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina, for the years ended June 30, 2005 and 2004. Our audit was made by authority of Article 5A of G.S. §147 of the *North Carolina General Statutes*.

The accounts and operations of the North Carolina Partnership are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the North Carolina Partnership were subjected to audit procedures, as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to The North Carolina Partnership for Children, Inc. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to The North Carolina Partnership for Children, Inc. A summary of our reporting objectives and audit results is:

1. **Objective** – To express an opinion on the accompanying financial statements that relate solely to the North Carolina Partnership.

**Results** – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the North Carolina Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts or grants.

**Results** – Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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

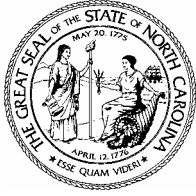


Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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STATE OF NORTH CAROLINA  
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**INDEPENDENT AUDITOR'S REPORT**

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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 years ended June 30, 2005 and 2004, 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 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, 2005 and 2004, 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 31, 2006 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 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)

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

Our audit was made for the purpose of forming an opinion on the basic financial statements of The North Carolina Partnership for Children, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Leslie W. Merritt, Jr.*

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

May 31, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### 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 (net of related debt), 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 appropriations, 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)

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The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balance. These new statements were effective beginning with the 2002 fiscal year.

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 the Smart Start Early Childhood Initiative. The North Carolina Partnership has notably increased its ability to provide effective oversight of, and technical assistance to, the 80 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 to establish a National Technical Assistance Center to assist 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, 2005 and 2004 were \$3.0 million and \$4.9 million, respectively, a decrease of \$1.9 million during the year. The decrease primarily resulted from lower revenues from private contributions due to the economic downturn in recent years.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Financial Information

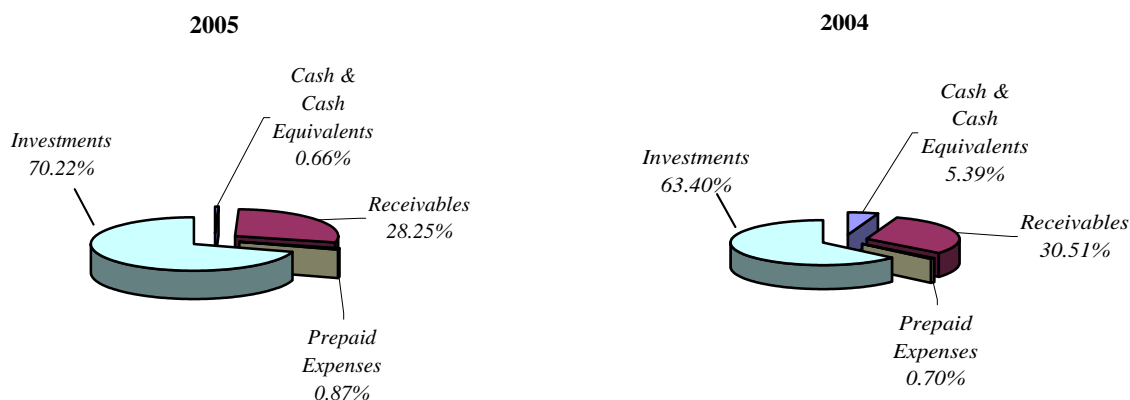
The following table summarizes the North Carolina Partnership's assets, liabilities and net assets as of June 30, 2005 and 2004.

**Condensed Statement of Net Assets**  
**June 30, 2005 and 2004**  
*(in thousands)*

	2005 Amount	2004 Amount	Percent Change
<b>Assets</b>			
Current Assets	\$ 5,491	\$ 7,474	(26.5) %
Capital Assets, Net	99	141	(29.8) %
Other Noncurrent Assets	151	193	(21.8) %
<b>Total Assets</b>	<b>5,741</b>	<b>7,808</b>	<b>(26.5) %</b>
<b>Liabilities</b>			
Current Liabilities	2,530	2,764	(8.5) %
Noncurrent Liabilities	186	191	(2.6) %
<b>Total Liabilities</b>	<b>2,716</b>	<b>2,955</b>	<b>(8.1) %</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	99	141	(29.8) %
Restricted:			
Expendable	762	2,176	(65.0) %
Unrestricted	2,164	2,536	(14.7) %
<b>Total Net Assets</b>	<b>\$ 3,025</b>	<b>\$ 4,853</b>	<b>(37.7) %</b>

The following graphically illustrates the assets, liabilities and net assets of the North Carolina Partnership.

### Current Assets



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

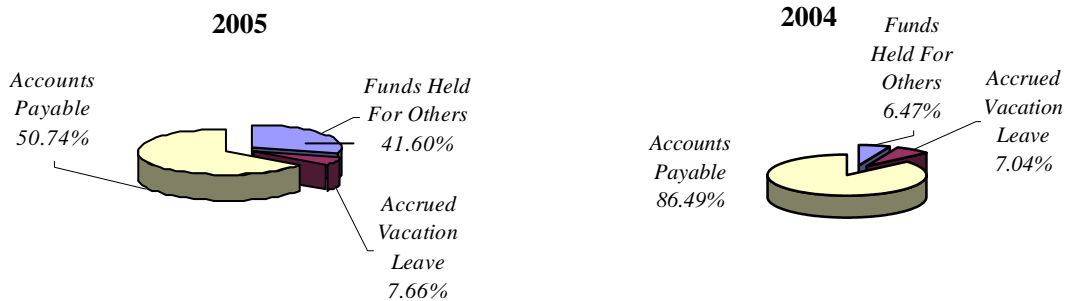
Current assets as of June 30, 2005 consisted primarily of cash and equivalents, \$36,000, investments, \$3.9 million, and receivables, \$1.6 million. Current assets as of June 30, 2004 consisted primarily of cash and equivalents, \$404,000, investments, \$4.7 million, and receivables, \$2.3 million.

### Capital and Other Noncurrent Assets



Noncurrent assets as of June 30, 2005 consisted of pledges receivable, approximately \$152,000, and capital assets, approximately \$99,000. Noncurrent assets as of June 30, 2004 consisted of pledges receivable, \$193,000, and capital assets, approximately \$141,000.

### Liabilities



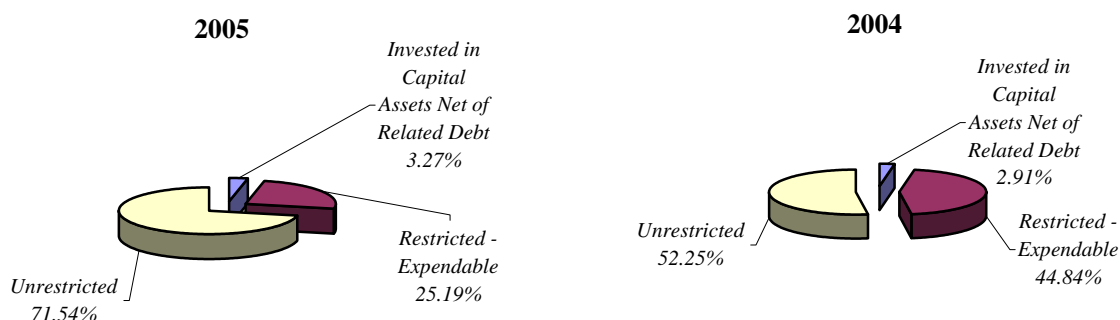
Current liabilities as of June 30, 2005 consisted primarily of accounts payable items, \$1.4 million, and funds held for others, \$1.1 million. Current liabilities as of June 30, 2004 consisted primarily of accounts payable items, \$2.6 million, and funds held for others, approximately \$191,000.

Noncurrent liabilities consisted entirely of accrued vacation leave in the approximate amounts of \$186,000 and \$191,000 for the fiscal years ended June 30, 2005 and 2004, respectively.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net assets invested in capital assets, net of related debt, were \$99,000 and \$141,000 as of June 30, 2005 and 2004, respectively. Restricted expendable net assets of \$762,000 and \$2.2 million as of June 30, 2005 and 2004, respectively, represent amounts subject to externally imposed restrictions. Unrestricted net assets of \$2.2 million and \$2.5 million as of June 30, 2005 and 2004, respectively, represent amounts not subject to externally imposed stipulations but were internally designated for various activities and initiatives.

### Net Assets



The Statements of Revenues, Expenses, and Changes in Net Assets 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 assets for the years ended June 30, 2005 and 2004.

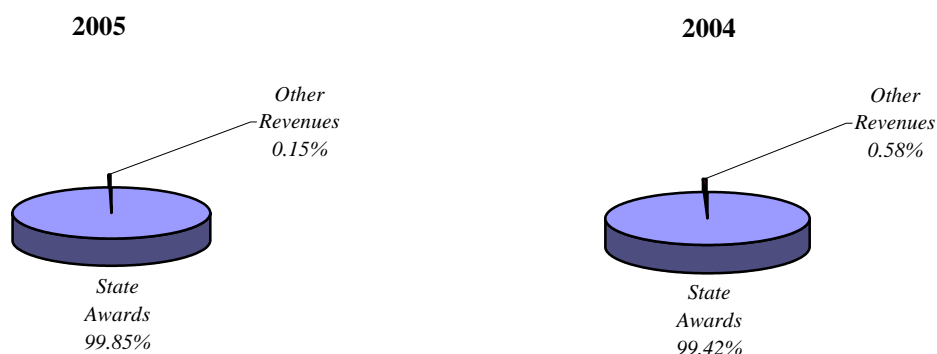
### Condensed Statement of Revenues, Expenses, and changes in Net Assets For the Fiscal Years Ended June 30, 2005 and 2004 (in thousands)

	Amount 2005	Amount 2004	Percentage Change
Operating Revenues	\$ 0	\$ 0	0 %
Operating Expenses	(5,545)	(5,620)	(1.3) %
Operating Loss	(5,545)	(5,620)	(1.3) %
Nonoperating Revenues	118,048	113,564	3.9 %
Nonoperating Expenses	(114,332)	(109,293)	4.6 %
Loss Before Other Revenues and Expenses	(1,829)	(1,349)	35.6 %
Other Revenues	0	0	0 %
Decrease in Net Assets	(1,829)	(1,349)	35.6 %
Net Assets Beginning of Year	4,853	6,202	(21.8) %
Net Assets End of Year	\$ 3,024	\$ 4,853	(37.7) %

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

While the North Carolina Partnership shows operating losses, this is an expected outcome for a nonprofit entity given the recent downturn in the economy.

### Nonoperating Revenues



The North Carolina Partnership has no operating revenues. For the fiscal year ended June 30, 2005, nonoperating revenues totaled \$118 million, of which State appropriations were \$117.9 million. For the fiscal year ended June 30, 2004, nonoperating revenues totaled \$113.6 million, of which State appropriations were \$112.9 million.

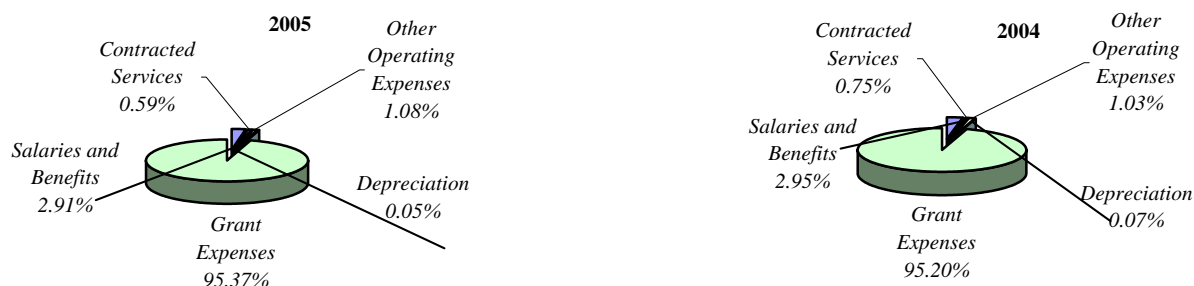
The following table summarizes the North Carolina Partnership's expenses (operating and nonoperating) for the reporting periods.

### Operating and Nonoperating Expenses For the Fiscal Years Ending June 30, 2005 and 2004 (in thousands)

	2005 Amount	2004 Amount	Percentage Change
Operating Expenses:			
Salaries and Benefits	\$ 3,483	\$ 3,440	1.3 %
Contracted Services	707	883	(19.9) %
Other Operating Expenses	1,292	1,210	6.8 %
Depreciation	63	87	(27.6) %
<b>Total Operating Expenses</b>	<b>5,545</b>	<b>5,620</b>	<b>(1.3) %</b>
Nonoperating Expenses:			
Contract/Grant Expenses	<u>\$ 114,332</u>	<u>\$ 109,293</u>	<u>4.6 %</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Much of the activities of the North Carolina Partnership are identified as nonoperating as the primary source of funding is appropriations from the State of North Carolina. 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 following is a graphic illustration of expenses (operating and nonoperating) for the reporting periods.

The Statements of Cash Flows provide additional information about the North Carolina Partnership's financial results by reporting the major sources and uses of cash. The following table summarizes the North Carolina Partnership's cash receipts and payments for the years ended June 30, 2005 and 2004.

### Condensed Statement of Cash Flows For the Fiscal Years Ended June 30, 2005 and 2004 (in thousands)

	Amount 2005	Amount 2004	Percentage Change
Cash Provided (Used) by:			
Operating Activities	\$ (4,946)	\$ (6,481)	(23.7) %
Capital and Related Financing Activities	(20)	(80)	(75.0) %
Noncapital Financing Activities	3,645	4,224	(13.7) %
Investing Activities	954	1,591	(40.0) %
Net Increase (Decrease) in Cash	(367)	(746)	(50.8) %
Cash - Beginning of the Year	404	1,150	(64.9) %
Cash - End of the Year	<u>\$ 37</u>	<u>\$ 404</u>	<u>(90.8) %</u>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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The net cash from operating activities shows net outflows of funds of \$4.9 million and \$6.4 million for the years ended June 30, 2005 and 2004, respectively. The major outflows were payments to employees for services and vendors for goods and services.

The net cash from noncapital financing activities were inflows of \$3.6 million and \$4.2 million for the years ended June 30, 2005 and 2004, respectively. As previously referenced, State appropriations, net of grants to local partnerships, account for the bulk of this inflow.

For the year ending June 30, 2005, the North Carolina Partnership had a net cash inflow of \$1.0 million from investing activities. This inflow resulted from the net of investment sales of approximately \$883,000 and investment income of approximately \$71,000. For the year ended June 30, 2004, the North Carolina Partnership had a net cash inflow from investing activities of \$1.6 million. This inflow resulted from the net of investment sales of \$1.5 million and investment income of approximately \$47,000.

### **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 funding.

The North Carolina Partnership actively seeks private gifts to support the mission of the Smart Start initiative. Due to the economic downturn, these revenues have decreased. In addition, the budget restraints for the State of North Carolina have negatively impacted the appropriations provided to the North Carolina Partnership. It is anticipated that the outlook for the North Carolina Partnership will brighten as improvement is noted with the State's economy.

***The North Carolina Partnership for Children, Inc.***  
***Statements of Net Assets***  
***For the Years Ended June 30, 2005 and 2004***

***Exhibit A***

	<b>June 30, 2005</b>	<b>June 30, 2004</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents:		
Petty Cash	\$ 150	\$ 150
Cash on Deposit	36,272	403,361
Investment		
Money Market Fund	3,842,429	4,725,090
Long-Term Certificate of Deposit	13,053	12,936
Receivables:		
Accounts Receivable (Note 3)	1,546,200	2,038,506
Pledges Receivable (Note 3)	5,000	241,650
Prepaid Expenses	47,998	52,162
Total Current Assets	<u>5,491,102</u>	<u>7,473,855</u>
Noncurrent Assets:		
Receivables:		
Pledges Receivable (Note 3)	151,520	192,570
Capital Assets, net of accumulated depreciation (Note 4)	98,614	141,102
Total Noncurrent Assets	<u>250,134</u>	<u>333,672</u>
Total Assets	<u>\$ 5,741,236</u>	<u>\$ 7,807,527</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 22,251	\$ 25,840
Accrued Payroll	104,317	96,864
Due to the State	1,251,124	2,432,107
Funds Held for Others	1,130,399	190,735
Accrued Vacation Leave	21,965	18,217
Total Current Liabilities	<u>2,530,056</u>	<u>2,763,763</u>
Noncurrent Liabilities:		
Accrued Vacation Leave	186,396	190,706
Total Liabilities	<u>2,716,452</u>	<u>2,954,469</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, net of Related Debt	98,614	141,102
Restricted for:		
Expendable within Grantor Restrictions	762,343	2,176,065
Unrestricted	2,163,827	2,535,891
Total Net Assets	<u>3,024,784</u>	<u>4,853,058</u>
Total Liabilities and Net Assets	<u>\$ 5,741,236</u>	<u>\$ 7,807,527</u>

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



***The North Carolina Partnership for Children, Inc.***  
***Statements of Revenues, Expenses, and Changes in Net Assets***  
***For the Years Ended June 30, 2005 and 2004***

***Exhibit B***

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<b>OPERATING REVENUES</b>	<u>\$ 0</u>	<u>\$ 0</u>
Operating Expenses:		
Salaries and Benefits	3,483,161	3,440,011
Contracted Services	706,939	883,048
Supplies and Materials	86,941	49,384
Other Operating Expenses	1,158,731	1,105,995
Expendable Equipment/Depreciation	<u>108,992</u>	<u>141,285</u>
Total Operating Expenses	<u>5,544,764</u>	<u>5,619,723</u>
Operating Income (Loss)	<u>(5,544,764)</u>	<u>(5,619,723)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Awards	117,873,830	112,941,636
Interest Earnings	71,360	46,862
Federal Awards	50,761	8,632
Private Contributions	191,470	381,685
Refunds of Prior Year Grant	(448,551)	
Miscellaneous	309,556	185,835
Contract/Grant Expense	<u>(114,331,936)</u>	<u>(109,293,492)</u>
Total Non-Operating Revenues (Expenses)	<u>3,716,490</u>	<u>4,271,158</u>
Net Increase (Decrease) in Net Assets	<u>(1,828,274)</u>	<u>(1,348,565)</u>
<b>NET ASSETS</b>		
Net Assets - July 1	<u>4,853,058</u>	<u>6,201,623</u>
Net Assets - June 30	<u><u>\$ 3,024,784</u></u>	<u><u>\$ 4,853,058</u></u>

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

**The North Carolina Partnership for Children, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2005 and 2004**

*Exhibit C*

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 770,005	\$ 869,108
Payments to Employees and Fringe Benefits	(3,476,270)	(3,396,965)
Payments to Vendors and Suppliers	(2,239,744)	(3,953,486)
	<u>(4,946,009)</u>	<u>(6,481,343)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Capital Assets	(20,115)	(80,271)
	<u>(20,115)</u>	<u>(80,271)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	117,873,830	112,941,636
Grants to Local Partnerships	(114,331,936)	(109,293,492)
Federal Awards	50,761	8,632
Private Contributions	191,470	381,685
Refunds of Prior Year Grant	(448,551)	
Other Receipts	309,556	185,835
	<u>3,645,130</u>	<u>4,224,296</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Investments	71,360	46,862
Purchase of Non-State Treasurer Investments	(117)	(131)
Sale of Non-State Treasurer Investments	882,662	1,544,024
	<u>953,905</u>	<u>1,590,755</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(367,089)	(746,563)
Cash and Cash Equivalents - July 1	403,511	1,150,074
Cash and Cash Equivalents - June 30	<u>\$ 36,422</u>	<u>\$ 403,511</u>
<b>RECONCILIATION OF TOTAL CASH</b>		
Operating Income (Loss)	(5,544,764)	(5,619,723)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation	62,603	86,972
(Increase) Decrease in Assets:		
Accounts Receivable	492,306	341,579
Pledges Receivable	277,700	520,000
Prepaid Expenses	4,164	(5,672)
Increase (Decrease) in Liabilities:		
Accounts Payable	(3,589)	24,503
Accrued Payroll	7,453	28,792
Due to the State	(1,180,983)	(966,898)
Due to Private Organizations		(25,800)
Accrued Vacation Leave	(562)	14,255
Funds Held for Others	939,663	(879,351)
Total Cash Provided (Used) for Operations	<u>\$ (4,946,009)</u>	<u>\$ (6,481,343)</u>

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

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**THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005 AND 2004**

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**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 80) in the areas of program development, administration, organizational development, communication, fiscal 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, 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 for Children, Inc. 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, 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.

As required by General Statute 143B-168.12, certain elected State officials appoint twenty-two of the North Carolina Partnership's board members, while the remaining 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. Because of the State's appointment of the board and the benefit/burden relationship, the North Carolina Partnership is a

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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*, 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, for proprietary activities, 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.

Nonexchange transactions, in which the North Carolina Partnership receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, 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 appears on the Statement of Net Assets and the Statement of Cash Flows and consists of petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, short-term certificates of deposit, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 funds and long-term certificates of deposit that are reported at cost, if purchased, or at fair market value or appraised value at the date of gift, if donated.
- G. Receivables and Allowance for Doubtful Accounts** – Accounts and notes 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 stated 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 in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20-50 years for buildings, 10-30 years for other structures and improvements, and 3-15 years for equipment.

- J. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- K. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities consist of compensated absences that will not be paid within the next fiscal year. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.
- L. Compensated Absences** – The North Carolina Partnership's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment.

The North Carolina Partnership has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

**Invested in Capital Assets Net of Related Debt** – This represents the North Carolina Partnership’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets net of related debt.

**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.

**Unrestricted Net Assets** – Unrestricted net assets are all those not invested in capital assets or restricted by external parties.

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

- N. Revenue and Expense Recognition** – The North Carolina Partnership classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services that are necessary and essential to the principal ongoing operations of the North Carolina Partnership. Operating revenues include activities that have characteristics of exchange transactions. Operating expenses are all expense transactions incurred other than those related to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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investing, capital, or noncapital financing 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 appropriations 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.

- O. Public and Private Funding** – The North Carolina Partnership’s major sources of funding are from the State of North Carolina based on cost-reimbursement contracts and from private contributions. Advances are received on the cost-reimbursement contracts with the State for anticipated expenses.

Private contributions are recorded when promises (pledges) are made or when support is received from private sources. Private contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Pledges from private sources are recorded when made and allowances considered for uncollectible amounts. The majority of the pledges receivable recorded are from major banks and corporations in North Carolina and are considered collectible. Pledges designated for the following year’s operations are reflected as current pledges receivable while pledges designated for future years are reflected as non-current pledges receivable in the accompanying Statement of Net Assets.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** – The North Carolina Partnership’s deposits include cash on deposit outside the State Treasurer, deposits held by the State Treasurer, and certificates of deposit. Deposits outside the State Treasurer are held in board-designated banks and a brokerage firm. Policy to limit the amount of credit exposure to any one institution is not in place that potentially subjects the North Carolina Partnership to a concentration of credit risk. The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool. These moneys are invested in accordance with G.S. 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

either by the Department of State Treasurer or its agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method. Under the dedicated method, deposits are individually collateralized. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool 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 State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

At June 30, 2005, the carrying amounts and bank balances of cash on deposit were:

	Carrying Value	Bank Balance
Checking Account	\$ 7,335	\$ 54,894
Cash Account with State Treasurer	28,937	279,530
Long-Term Certificate of Deposit	13,053	13,053
Total Deposits	\$ 49,325	\$ 347,477

At June 30, 2004, the carrying amounts and bank balances of cash on deposit were:

	Carrying Value	Bank Balance
Checking Account	\$ 4,029	\$ 305,232
Cash Account with State Treasurer	399,332	404,109
Long-Term Certificate of Deposit	12,936	12,936
Total Deposits	\$ 416,297	\$ 722,277

The North Carolina Partnership's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the North Carolina Partnership to a concentration of risk. The North Carolina Partnership's deposits with its brokerage firm are covered by securities protection described in the investment section of this note.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**B. Investments** – There are no legal limitations on the types of investments by the North Carolina Partnership. At June 30, 2005 and 2004, the North Carolina Partnership held short-term investments of \$3,842,428 and \$4,725,090, respectively, in a money market fund that are not subject to categorization of custodial credit risk.

In addition, the North Carolina Partnership held a long-term certificate of deposit in the amount of \$13,053 and \$12,936, respectively, which is not subject to categorization of custodial credit risk. The long-term certificate of deposit is a component of the deposit totals reported in the deposits section of this note.

The money market fund and related cash account is provided up to \$50 million in securities protection; \$1,000,000 in coverage through the Securities Investor Protection Corporation, and \$49 million through independent third party coverage purchased by the North Carolina Partnership's brokerage firm.

### NOTE 3 - RECEIVABLES

**A. Accounts Receivable** – The gross accounts receivable were:

	June 30, 2005	June 30, 2004
Due from Local Partnerships	\$ 1,512,472	\$ 1,996,984
Sales Tax Receivable	27,725	24,869
Other Receivables	6,003	16,653
Total Receivables	\$ 1,546,200	\$ 2,038,506

The North Carolina Partnership expects to collect these receivables.

**B. Pledges Receivable** – The North Carolina Partnership has pledges receivable in the amount of \$156,520 and \$192,570, respectively that are collectible over several years. Due to the nature of the donor organizations, the North Carolina Partnership considers these pledges to be collectible. Scheduled receipts under these pledge commitments are as follows:

Fiscal Year	June 30, 2005	June 30, 2004
2006	\$ 5,000	\$ 41,050
2007	49,050	49,050
2008	102,470	102,470
Total Pledges Receivable	\$ 156,520	\$ 192,570

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<b>Capital Assets, Depreciable</b>				
Machinery and Equipment	\$ 448,569	\$ 20,115	\$ (6,293)	\$ 462,391
Other Improvements	36,834			36,834
	<u>485,403</u>	<u>20,115</u>	<u>(6,293)</u>	<u>499,225</u>
Less Accumulated				
Machinery and Equipment	312,186	59,457	(6,293)	365,350
Other Improvements	32,115	3,146		35,261
	<u>344,301</u>	<u>62,603</u>	<u>(6,293)</u>	<u>400,611</u>
Total Capital Assets, Net	<u>\$ 141,102</u>	<u>\$ (42,488)</u>	<u>\$ 0</u>	<u>\$ 98,614</u>

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<b>Capital Assets, Depreciable</b>				
Machinery and Equipment	\$ 378,281	\$ 80,271	\$ (9,983)	\$ 448,569
Other Improvements	36,834			36,834
	<u>415,115</u>	<u>80,271</u>	<u>(9,983)</u>	<u>485,403</u>
Less Accumulated				
Machinery and Equipment	239,657	78,776	(6,247)	312,186
Other Improvements	27,655	4,460		32,115
	<u>267,312</u>	<u>83,236</u>	<u>(6,247)</u>	<u>344,301</u>
Total Capital Assets, Net	<u>\$ 147,803</u>	<u>\$ (2,965)</u>	<u>\$ (3,736)</u>	<u>\$ 141,102</u>

### NOTE 5 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year is presented as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Current Portion
Accrued Vacation Leave	<u>\$ 208,923</u>	<u>\$ 172,503</u>	<u>\$ (173,065)</u>	<u>\$ 208,361</u>	<u>\$ 21,965</u>

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Current Portion
Accrued Vacation Leave	<u>\$ 194,668</u>	<u>\$ 148,113</u>	<u>\$ (133,858)</u>	<u>\$ 208,923</u>	<u>\$ 18,217</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 6 - LEASE OBLIGATIONS - OPERATING

The following is a schedule by years of future minimum rental payments required under leases that have non-cancelable lease terms as of June 30, 2005:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2006	\$ 307,026
2007	307,016
2008	309,465
2009	315,654
2010	321,967
Thereafter	<u>272,763</u>
Total Minimum Lease Payments	<u>\$ 1,833,891</u>

Total rental expenses for all operating leases for the fiscal years ended June 30, 2005 and 2004 were \$306,115 and \$328,391, respectively.

### NOTE 7 - 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 \$145,000 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 8 - PENSION AND DEFERRED COMPENSATION PLANS

**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 years ended June 30, 2005 and 2004, the North Carolina Partnership's Plan contributions were \$181,528 and \$181,251, respectively.

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

The North Carolina Partnership has outstanding commitments on cost-reimbursement contracts totaling \$396,597 as of June 30, 2005.

### NOTE 10 - 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, Schedules 1 and 2, 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.

**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, to provide technical assistance and training to local partnerships for establishment of contract management and monitoring systems.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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.

**Fiscal** – Responsible for maintaining the financial records and processing payments 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.

**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.

**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.

**Program and Planning** – 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. Also, responsible for building the program capacity of local partnerships and facilitating the development and implementation of coordinated state-level systems of service.

**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.

**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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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**Technology Department** – 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.

**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.

***The North Carolina Partnership for Children, Inc.***  
***Schedule of Functional Expenses***  
***For the Year Ended June 30, 2005***

***Schedule 1***

	<b>Total</b>	<b>Salaries and Benefits</b>	<b>Contracted Services</b>	<b>Supplies and Materials</b>	<b>Other Operating Expenses</b>	<b>Expendable Equipment/ Depreciation</b>	<b>Contract/ Grant Expense</b>
<b>Programs:</b>							
Comprehensive Training Events	<b>173,577</b>		69,177	590	103,810		
Contracts	<b>270,540</b>	266,205	613	440	3,282		
Finance	<b>165,926</b>	154,932		375	10,619		
Financial Services	<b>544,327</b>	495,111		675	48,541		
Fiscal	<b>120,180</b>	107,627	10,760	311	1,482		
Human Resources	<b>92,457</b>	80,450	4,651	79	7,277		
Local Partnership Administration	<b>14,076,161</b>						14,076,161
Local Partnership Services	<b>99,007,532</b>						99,007,532
MAC	<b>1,605,259</b>	212,291	12,147	14,098	181,756	15,914	1,169,053
Program and Planning	<b>877,040</b>	830,687	600	945	44,333	475	
Public Information	<b>433,570</b>	305,143	50,150		49,587		28,690
Technical Assistance - Other States	<b>884,109</b>	190,892	436,793	13,559	210,949	1,916	30,000
Technology Department	<b>320,930</b>	208,830	112	38,878	45,826	27,284	
	<b>118,571,608</b>	<b>2,852,168</b>	<b>585,003</b>	<b>69,950</b>	<b>707,462</b>	<b>45,589</b>	<b>114,311,436</b>
<b>Support:</b>							
Administration	<b>1,134,025</b>	483,148	121,353	16,521	445,100	63,403	4,500
Development	<b>171,067</b>	147,845	583	470	6,169		16,000
	<b>1,305,092</b>	<b>630,993</b>	<b>121,936</b>	<b>16,991</b>	<b>451,269</b>	<b>63,403</b>	<b>20,500</b>
<b>Total Expenditures</b>	<b>119,876,700</b>	<b>3,483,161</b>	<b>706,939</b>	<b>86,941</b>	<b>1,158,731</b>	<b>108,992</b>	<b>114,331,936</b>



***The North Carolina Partnership for Children, Inc.***  
***Schedule of Functional Expenses***  
***For the Year Ended June 30, 2004***

***Schedule 2***

	<b>Total</b>	<b>Salaries and Benefits</b>	<b>Contracted Services</b>	<b>Supplies and Materials</b>	<b>Other Operating Expenses</b>	<b>Expendable Equipment/ Depreciation</b>	<b>Contract/ Grant Expense</b>
<b>Programs:</b>							
Accounting	<b>123,052</b>	109,450	11,111	227	2,165	99	
Comprehensive Training Events	<b>142,237</b>		56,787	4,907	80,543		
Contracts	<b>287,734</b>	283,103		488	4,143		
Finance Administration	<b>157,921</b>	145,117		92	12,712		
Financial Services	<b>357,499</b>	331,610		849	25,040		
Human Resources	<b>93,494</b>	79,710	3,295	323	10,166		
Local Partnership Administration	<b>13,830,567</b>						13,830,567
Local Partnership Services	<b>94,314,895</b>						94,314,895
MAC	<b>1,536,724</b>	205,975	19,658	6,953	185,380	9,728	1,109,030
Planning Services	<b>970,364</b>	889,366	12,560	1,338	51,662	438	15,000
Public Information	<b>427,986</b>	301,372	77,192	714	48,708		
Technical Assistance - Other States	<b>925,266</b>	199,543	567,233	197	155,487	2,806	
Technology Department	<b>331,263</b>	221,141		16,069	56,615	37,438	
	<b>113,499,002</b>	<b>2,766,387</b>	<b>747,836</b>	<b>32,157</b>	<b>632,621</b>	<b>50,509</b>	<b>109,269,492</b>
<b>Support:</b>							
Administration	<b>1,184,622</b>	473,619	135,212	17,044	459,971	90,776	8,000
Development	<b>229,591</b>	200,005		183	13,403		16,000
	<b>1,414,213</b>	<b>673,624</b>	<b>135,212</b>	<b>17,227</b>	<b>473,374</b>	<b>90,776</b>	<b>24,000</b>
<b>Total Expenditures</b>	<b>114,913,215</b>	<b>3,440,011</b>	<b>883,048</b>	<b>49,384</b>	<b>1,105,995</b>	<b>141,285</b>	<b>109,293,492</b>

***The North Carolina Partnership for Children, Inc.***  
***Schedule of Contract and Grant Expenses***  
***For the Year Ended June 30, 2005***

***Schedule 3***

<b>Organization Name</b>	<b>Amount Expended</b>	<b>Refund Due</b>
Alamance Partnership for Children	1,197,510	52,840
Albemarle Smart Start Partnership, Inc.	841,538	22,696
Alexander County Partnership for Children	497,755	18,576
Alleghany County Partnership for Children, Inc.	211,653	203
Anson County Partnership for Children	593,328	
Ashe County Partnership for Children	480,541	853
Avery County Partnership for Children, Inc.	271,722	3,709
Beaufort/Hyde Partnership for Children	587,534	18,946
The Bertie County Partnership for Children, Inc.	347,550	9,112
Bladen County Partnership for Children, Inc.	426,111	26,348
Brunswick County Partnership for Children, Inc.	936,685	28,883
Buncombe County Partnership for Children, Inc.	2,770,562	23,916
Burke County Partnership for Children, Inc.	1,976,873	33,219
Cabarrus County Partnership for Children	1,408,828	21,284
Caldwell County Smart Start A Partnership for Young Children	1,767,626	20,252
Carteret County Partnership for Children	784,103	3,336
Caswell County Partnership for Children	292,546	11,595
Catawba County Partnership for Children	1,932,783	5,747
Chatham County Partnership for Children	984,395	3,046
Children and Youth Partnership for Dare County, Inc.	406,752	6,763
Children's Council of Watauga County, Inc.	404,065	106
Chowan/Gates/Perquimans Partnership for Children	479,739	19,170
Cleveland County Partnership for Children, Inc.	1,775,086	15,740
Columbus County Partnership for Children, Incorporated	468,844	8,348
Craven Smart Start, Inc.	784,614	26,134
Partnership for Children of Cumberland County, Inc.	6,169,406	89,499
Smart Start of Davidson County, Inc.	2,351,987	40,649
Smart Start of Davie County, Inc.	438,931	6,370
Down East Partnership for Children	3,328,349	42,301
Duplin County Partnership for Children	831,044	16,704
Durham's Partnership for Children	4,021,382	45,590
Smart Start of Forsyth County	6,198,404	80,473
Franklin-Granville-Vance Partnership for Children, Inc.	1,306,711	45,701

***The North Carolina Partnership for Children, Inc.***  
***Schedule of Contract and Grant Expenses***  
***For the Year Ended June 30, 2005***

***Schedule 3***  
***Page 2***

Guilford County Partnership for Children, Inc.	3,800,147	5,379
The Halifax-Warren Smart Start Partnership for Children, Inc.	1,156,963	16,964
Harnett County Partnership for Children, Inc.	1,089,708	17,553
Smart Start of Henderson County, Inc.	848,701	3,814
Hertford County Partnership for Children, Inc.	535,914	3,280
Hoke County Partnership for Children and Families	1,101,348	13,712
Iredell County Partnership for Young Children, Inc.	1,865,575	14,810
Partnership for Children of Johnston County, Inc.	1,720,763	4,496
Jones County Partnership for Children	314,933	740
Lee County Partnership for Children	819,341	10,691
Lenoir/Greene County Partnership for Children	1,555,028	52,554
Madison County Partnership for Children and Families, Inc.	522,054	6,143
Martin/Pitt Partnership for Children, Inc.	1,349,880	3,963
McDowell County Partnership for Children and Families, Inc.	721,615	1,609
Mecklenburg Partnership for Children	9,493,999	38,406
Montgomery County Partnership for Children	721,160	3,367
New Hanover County Partnership for Children	1,482,247	7,480
Northampton Partnership for Children, Inc.	258,908	4,752
Onslow County Partnership for Children, Inc.	2,222,028	35,861
Orange County Partnership for Young Children	2,811,106	
Pamlico Partnership for Children, Inc.	247,629	1,655
Partners for Children and Families, Inc. (Moore County)	937,519	2,046
Pender County Partnership for Children, Inc.	562,488	18,835
Person County Partnership for Children	656,453	23,273
Polk County Partnership for Children, Inc.	227,661	3,229
Randolph County Partnership for Children	1,565,316	47,392
Region A Partnership for Children	1,855,536	4,811
Richmond County Partnership for Children	846,330	16,040
Robeson County Partnership for Children	2,692,267	49,109
Rockingham County Partnership for Children, Inc.	1,143,907	21,692
Smart Start Rowan, Inc.	1,823,514	4,317
Rutherford County Partnership for Children, Inc.	917,846	5,502
Sampson County Partnership for Children	825,532	589
Scotland County Partnership for Children and Families, Inc.	612,970	3,680

***The North Carolina Partnership for Children, Inc.***  
***Schedule of Contract and Grant Expenses***  
***For the Year Ended June 30, 2005***

***Schedule 3***  
***Page 3***

Smart Start of Transylvania County, Inc.  
Stanly County Partnership for Children  
Stokes Partnership for Children  
Surry County Early Childhood Partnership  
The Mitchell-Yancey County Partnership for Children, Inc.  
Partnership for Lincoln/Gaston Counties, Inc.  
Tyrrell County Smart Start, Inc.  
Union County Partnership for Children  
Various Other Organizations  
Wake County SmartStart  
Washington County Child Advocacy Council, Inc.  
The Partnership for Children of Wayne County, Inc.  
Wilkes Community Partnership for Children  
Wilson County Partnership for Children  
Smart Start of Yadkin County, Inc.

216,500	2,493
1,380,777	40,189
727,108	8,100
1,222,871	28,392
408,311	765
3,250,793	46,414
100,912	4,143
1,156,790	1,182
98,921	
7,077,470	51,116
222,759	3,977
1,281,252	20,920
879,390	5,058
543,240	15,217
618,744	11,426
<b>115,767,181</b>	<b>1,435,245</b>

***The North Carolina Partnership for Children, Inc.  
Schedule of Contract and Grant Expenses  
For the Year Ended June 30, 2004***

*Schedule 4*

<b>Organization Name</b>	<b>Amount Expended</b>	<b>Refund Due</b>
Alamance Partnership for Children	1,176,684	47,048
Albemarle Smart Start Partnership, Inc.	835,017	20,974
Alexander County Partnership for Children	469,204	21,736
Alleghany County Partnership for Children, Inc.	205,108	813
Anson County Partnership for Children	611,321	2,732
Ashe County Partnership for Children	441,835	3,814
Avery County Partnership for Children, Inc.	274,383	144
Beaufort County Partnership for Children	530,789	9,713
The Bertie County Partnership for Children, Inc.	385,402	16,794
Bladen County Partnership for Children, Inc.	365,992	17,819
Brunswick County Partnership for Children, Inc.	857,911	15,066
Buncombe County Partnership for Children, Inc.	2,546,652	9,614
Burke County Partnership for Children, Inc.	1,973,882	44,275
Cabarrus County Partnership for Children	1,313,729	29,463
Caldwell County Smart Start A Partnership for Young Children	1,768,286	48,897
Carteret County Partnership for Children	722,847	5,244
Caswell County Partnership for Children	311,314	7,180
Catawba County Partnership for Children	1,871,803	10,545
Chatham County Partnership for Children	943,538	25,443
Children and Youth Partnership for Dare County, Inc.	407,548	4,923
Children's Council of Watauga County, Inc.	380,214	2,668
Chowan/Gates/Perquimans Partnership for Children	431,104	14,032
Cleveland County Partnership for Children, Inc.	1,782,521	23,846
Columbus County Partnership for Children, Incorporated	534,085	14,748
Craven Smart Start, Inc.	769,936	18,605
Partnership for Children of Cumberland County, Inc.	6,499,338	46,614
Smart Start of Davidson County, Inc.	2,233,458	24,489
Smart Start of Davie County, Inc.	441,405	12,932
Down East Partnership for Children	3,267,665	27,775
Duplin County Partnership for Children	839,151	19,780
Durham's Partnership for Children	4,464,585	43,586
Smart Start of Forsyth County	6,089,753	123,265
Franklin-Granville-Vance Partnership for Children, Inc.	1,185,704	22,273

***The North Carolina Partnership for Children, Inc.  
Schedule of Contract and Grant Expenses  
For the Year Ended June 30, 2004***

***Schedule 4  
Page 2***

Guilford County Partnership for Children, Inc.	4,002,598	22,882
Harnett County Partnership for Children, Inc.	1,044,283	16,526
Smart Start of Henderson County, Inc.	752,820	25,151
Hertford County Partnership for Children, Inc.	511,072	4,788
Hoke County Partnership for Children and Families	1,076,929	18,682
Hyde County Partnership for Children	87,155	7,786
Iredell County Partnership for Young Children, Inc.	1,824,962	26,878
Partnership for Children of Johnston County, Inc.	1,551,497	17,826
Jones County Partnership for Children	290,472	503
Lee County Partnership for Children	797,649	9,303
Lenoir/Greene County Partnership for Children	1,349,884	32,508
Madison County Partnership for Children and Families, Inc.	531,335	26,410
Martin/Pitt Partnership for Children, Inc.	1,364,481	8,751
McDowell County Partnership for Children and Families, Inc.	704,265	955
Mecklenburg Partnership for Children	7,835,272	50,595
Montgomery County Partnership for Children	713,817	1,437
New Hanover County Partnership for Children	1,427,501	23,602
Northampton Partnership for Children, Inc.	248,384	4,781
Onslow County Partnership for Children, Inc.	1,915,773	29,801
Orange County Partnership for Young Children	2,778,738	5,698
Pamlico Partnership for Children, Inc.	256,253	1,170
Partners for Children and Families, Inc. (Moore County)	940,210	20,863
Pender County Partnership for Children, Inc.	513,743	11,735
Person County Partnership for Children	668,005	18,620
Polk County Partnership for Children, Inc.	240,351	4,097
Randolph County Partnership for Children	1,427,573	20,331
Region A Partnership for Children	1,850,193	8,025
Richmond County Partnership for Children	790,913	21,767
Robeson County Partnership for Children	2,721,854	65,423
Rockingham County Partnership for Children, Inc.	1,088,547	44,058
Smart Start Rowan, Inc.	1,669,789	38,116
Rutherford County Partnership for Children, Inc.	939,536	24,291
Sampson County Partnership for Children	709,014	21,466
Scotland County Partnership for Children and Families, Inc.	585,329	20,158

***The North Carolina Partnership for Children, Inc.  
Schedule of Contract and Grant Expenses  
For the Year Ended June 30, 2004***

***Schedule 4  
Page 3***

Smart Start of Transylvania County, Inc.	211,897	1,909
Stanly County Partnership for Children	1,362,074	36,204
Stokes Partnership for Children	692,620	26,510
Surry County Early Childhood Partnership	1,186,113	29,895
The Halifax-Warren Smart Start Partnership for Children, Inc.	1,185,355	22,403
The Mitchell-Yancey Partnership for Children, Inc.	368,577	8,159
Partnership for Lincoln/Gaston Counties, Inc.	2,681,392	35,568
Tyrrell County Smart Start, Inc.	104,827	1,467
Union County Partnership for Children	1,085,584	10,912
Various Other Organizations	104,127	
Wake County SmartStart	6,417,754	198,797
Washington County Child Advocacy Council, Inc.	240,871	435
The Partnership for Children of Wayne County, Inc.	1,157,168	30,133
Wilkes Community Partnership for Children	921,943	28,347
Wilson County Partnership for Children	681,038	30,231
Smart Start of Yadkin County, Inc.	620,525	17,931
	<b>111,164,226</b>	<b>1,870,734</b>

*The North Carolina Partnership for Children, Inc.*  
*Schedule of Federal and State Awards*  
*For the Year Ended June 30, 2005*

*Schedule 5*

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
Department of Health and Human Services Pass-through from the Iowa Department of Public Health Early Childhood Comprehensive Systems	93.110	5884SS01	\$ 50,761	\$ 49,789
<b>State Awards:</b>				
North Carolina Department of Health and Human Services Division of Child Development Early Childhood Initiatives Program (Current Year)	*	6196	112,409,040	112,409,040
Early Childhood Initiatives Program (Current Year)	*	6197	5,458,946	5,458,946
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program (Current Year)			5,844	1
<b>Total State Awards</b>			<u>117,873,830</u>	<u>117,867,987</u>
<b>Total Federal and State Awards</b>			<u>\$ 117,924,591</u>	<u>\$ 117,917,776</u>

\* Programs with compliance requirements that have a direct and material effect on the financial statement

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



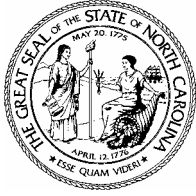
**The North Carolina Partnership for Children, Inc.**  
**Schedule of Federal and State Awards**  
**For the Year Ended June 30, 2004**

**Schedule 6**

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
Department of Health and Human Service Pass-through from the Iowa Department of Public Health Early Childhood Comprehensive System	93.110	5884SS01	\$ 8,632	\$ 9,605
<b>State Awards:</b>				
North Carolina Department of Health and Human Service Division of Child Development				
Early Childhood Initiatives Program (Prior Year)		6025	(8,919)	
Early Childhood Initiatives Program (Current Year)		6196	107,590,097	107,590,097
Early Childhood Initiatives Program (Current Year)		6197	5,355,833	5,355,833
North Carolina Department of Health and Human Service More at Four Pre-Kindergarten Program (Current Year)			4,625	9,713
<b>Total State Awards</b>			<u>112,941,636</u>	<u>112,955,643</u>
<b>Total Federal and State Awards</b>			<u>\$ 112,950,268</u>	<u>\$ 112,965,248</u>

\* 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



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

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

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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., a component unit of the State of North Carolina, as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated May 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Carolina Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

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objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of The North Carolina Partnership for Children, Inc., the Governor, the State Controller, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.

*Leslie W. Merritt, Jr.*

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

May 31, 2006

## ORDERING INFORMATION

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

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