



STATE OF NORTH CAROLINA

THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

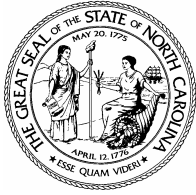
FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

ASHLEY THRIFT, BOARD CHAIR

ADMINISTRATIVE OFFICER

STEPHANIE FANJUL, PRESIDENT



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, 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, 2007, 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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

Leslie W. Merritt, Jr.

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of The North Carolina Partnership for Children, Inc. (North Carolina Partnership), a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the North Carolina Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The North Carolina Partnership for Children, Inc. as of June 30, 2007, 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 28, 2008, 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)

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 28, 2008

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

Introduction

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

Overview of the Basic Financial Statements

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

The *Statement of Revenues, Expenses, and Changes in Net Assets* provides information relative to the results of the North Carolina Partnership's operations, nonoperating activities, and other activities affecting net assets that occurred during the fiscal year. Nonoperating activities include primarily subsidies from the State in the form of 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)

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

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

Brief Agency Highlights

The North Carolina Partnership provides statewide oversight of North Carolina's Smart Start Early Childhood Initiative. The North Carolina Partnership has notably increased its ability to provide effective oversight of, and technical assistance to, the 78 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, 2007, and June 30, 2006, were \$7.1 million and \$7.9 million, respectively, a decrease of \$800,000 during the year. The decrease resulted from lower revenues from private contributions.

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, 2007, and 2006.

Condensed Statement of Net Assets

June 30, 2007, and 2006

(in thousands)

	2007 Amount	2006 Amount	Percentage Change
Assets			
Current Assets	\$ 3,962	\$ 6,178	(35.9) %
Capital Assets, Net	161	142	13.4 %
Other Noncurrent Assets	4,748	3,254	45.9 %
 Total Assets	 8,871	 9,574	 (7.3) %
Liabilities			
Current Liabilities	1,591	1,524	4.4 %
Noncurrent Liabilities	156	195	(20.0) %
 Total Liabilities	 1,747	 1,719	 1.6 %
Net Assets			
Invested in Capital Assets	161	142	13.4 %
Restricted:			
Expendable	4,871	5,798	(16.0) %
Unrestricted	2,092	1,915	9.2 %
 Total Net Assets	 \$ 7,124	 \$ 7,855	 (9.3) %

Current assets as of June 30, 2007, consisted primarily of cash and equivalents, \$236,000, investments, \$921,000, receivables, \$2.7 million, and prepaid expenses, \$104,000. Current assets as of June 30, 2006, consisted primarily of cash and equivalents, \$247,000, investments, \$4.3 million, receivables, \$1.5 million and prepaid expenses, \$101,000.

Current assets decreased and noncurrent assets increased during the fiscal year June 30, 2007, due to the collection of pledges receivable and the investment of those receipts in certificates of deposit.

Capital and Other Noncurrent Assets

Noncurrent assets as of June 30, 2007, primarily consisted of investments, \$3.0 million, pledges receivable, \$1.8 million, and capital assets, \$161,000. Noncurrent assets as of

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2006, consisted of investments, \$14,000, pledges receivable, \$3.2 million, and capital assets, \$142,000.

Liabilities

Current liabilities as of June 30, 2007, consisted primarily of accounts payable items, \$1.5 million, and funds held for others, \$90,000. Current liabilities as of June 30, 2006, consisted primarily of accounts payable items, \$1.5 million, and funds held for others, \$66,000.

Noncurrent liabilities consisted entirely of accrued vacation leave in the approximate amount of \$156,000 and \$195,000 for the fiscal years ended June 30, 2007, and 2006, respectively.

Net Assets

Net assets invested in capital assets were \$161,000 and \$142,000 as of June 30, 2007, and 2006, respectively. Restricted expendable net assets of \$4.9 million and \$5.8 million as of June 30, 2007, and 2006, respectively, represent amounts subject to externally imposed restrictions. Unrestricted net assets of \$2.1 and \$1.9 million as of June 30, 2007, and 2006, respectively, represent amounts not subject to externally imposed stipulations, but internally designated for various activities and initiatives.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the North Carolina Partnership's operations for the report period. The following table summarizes the North Carolina Partnership's revenues, expenses, and changes in net assets for the years ended June 30, 2007, and 2006.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2007, and 2006
(in thousands)

	2007 Amount	2006 Amount	Percentage Change
Operating Revenues	\$ 0	\$ 0	0 %
Operating Expenses	(6,016)	(5,425)	10.9 %
Operating Loss	(6,016)	(5,425)	10.9 %
Nonoperating Revenues	130,911	124,863	4.8 %
Nonoperating Expenses	(125,626)	(114,608)	9.6 %
Increase (Decrease) in Net Assets	(731)	4,830	(115.1) %
Net Assets Beginning of Year	7,855	3,025	159.7 %
Net Assets End of Year	\$ 7,124	7,855	(9.3) %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

In the fiscal year ended June 30, 2006, the North Carolina Partnership received a private grant of \$5 million. This grant will be expended over several years, which resulted in an operating loss for the fiscal year ended June 30, 2007.

Nonoperating Revenues

The North Carolina Partnership has no operating revenues. For the fiscal year ended June 30, 2007, nonoperating revenues totaled approximately \$131 million, of which State appropriations were \$130.2 million. For the fiscal year ended June 30, 2006, nonoperating revenues totaled \$125 million, of which State appropriations were \$118.5 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 Ended June 30, 2007, and 2006
(in thousands)

	2007	2006	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
Operating Expenses:			
Salaries and Benefits	\$ 3,736	\$ 3,503	6.7 %
Contracted Services	852	488	74.6 %
Other Operating Expenses	1,383	1,387	(0.3) %
Depreciation	<u>45</u>	<u>47</u>	<u>(4.3) %</u>
 Total Operating Expenses	 <u>\$ 6,016</u>	 <u>\$ 5,425</u>	 <u>10.9 %</u>
 Nonoperating Expenses:			
Contract/Grant Expenses	<u>\$ 125,626</u>	<u>\$ 114,608</u>	<u>9.6 %</u>

Much of the North Carolina Partnership's activities are identified as nonoperating, with State appropriations 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.

As noted above, in fiscal year ended June 30, 2006, the North Carolina Partnership received a private grant of \$5 million that will be expended over several years. Additional staff and contractors were engaged to perform services under this grant. Additional contracted services were incurred for other initiatives, such as "parents as teachers" and "school readiness".

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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. For the fiscal year ended June 30, 2007, private contributions decreased significantly as compared to the fiscal year ended June 30, 2006. This decrease was the result of the receipt of a substantial private contribution in the fiscal year ended June 30, 2006. However, the more favorable position of the State of North Carolina's budget has positively impacted the appropriations provided to the North Carolina Partnership. It is anticipated that the outlook for the North Carolina Partnership will remain favorable provided that charitable giving continues at its current pace and the State's economy maintains a steady course.

The North Carolina Partnership for Children, Inc.
Statement of Net Assets
For the Year Ended June 30, 2007

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 235,817
Investments	921,454
Receivables:	
Accounts Receivable (Note 3)	1,346,966
Pledges Receivable (Note 3)	1,354,500
Prepaid Expenses	103,895
	<hr/>
Total Current Assets	3,962,632

Noncurrent Assets:

Investments	2,964,859
Receivables:	
Pledges Receivable (Note 3)	1,783,000
Capital Assets, Net of Accumulated Depreciation (Note 4)	160,789
	<hr/>
Total Noncurrent Assets	4,908,648

Total Assets	<hr/> <hr/> \$ 8,871,280
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 37,449
Accrued Payroll	129,102
Due to the State	1,291,208
Funds Held for Others	89,860
Accrued Vacation Leave (Note 5)	43,135
	<hr/>
Total Current Liabilities	1,590,754

Noncurrent Liabilities:

Accrued Vacation Leave (Note 5)	156,260
	<hr/>

Total Liabilities	<hr/> 1,747,014
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NET ASSETS

Invested in Capital Assets	160,789
Restricted for:	
Expendable:	
Capacity Building	4,157,031
Other Specific Child Care Related Activities	714,295
Unrestricted	2,092,151
	<hr/>

Total Net Assets	<hr/> 7,124,266
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Total Liabilities and Net Assets	<hr/> <hr/> \$ 8,871,280
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The accompanying notes to the financial statements are an integral part of this statement.

***The North Carolina Partnership for Children, Inc.
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2007***

Exhibit B

OPERATING REVENUES	\$ 0
<hr/>	
OPERATING EXPENSES	
Salaries and Benefits	3,736,122
Contracted Services	851,863
Supplies and Materials	111,712
Other Operating Expenses	1,174,427
Purchase of Noncapitalized Equipment	97,130
Depreciation	44,854
	<hr/>
Total Operating Expenses	6,016,108
	<hr/>
Operating Loss	(6,016,108)
	<hr/>
NONOPERATING REVENUES (EXPENSES)	
State Awards	130,171,670
Interest Earnings	205,137
Private Contributions	175,220
Miscellaneous	359,330
Contract/Grant Expense	(125,625,980)
	<hr/>
Total Nonoperating Revenues (Expenses)	5,285,377
	<hr/>
Net Decrease in Net Assets	(730,731)
	<hr/>
NET ASSETS	
Net Assets - July 1	7,854,997
	<hr/>
Net Assets - June 30	<u><u>\$ 7,124,266</u></u>

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, 2007

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Payments to Employees and Fringe Benefits	\$ (3,732,141)
Payments to Vendors and Suppliers	(2,247,721)
	<hr/>
Cash Used by Operating Activities	(5,979,862)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Awards	130,177,897
Grants to Local Partnerships and Other Organizations	(125,646,254)
Private Contributions	581,740
Other Receipts	359,330
	<hr/>
Net Cash Provided by Noncapital Financing Activities	5,472,713

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	(63,365)
	<hr/>
Cash Used by Capital and Related Financing Activities	(63,365)

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of Non-State Treasurer Investments	420,770
Interest on Investments	138,536
	<hr/>
Cash Provided by Investing Activities	559,306

Net Decrease in Cash and Cash Equivalents	(11,208)
Cash and Cash Equivalents - July 1	247,025
	<hr/>
Cash and Cash Equivalents - June 30	\$ 235,817

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (6,016,108)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:	
Depreciation	44,854
Changes in Assets:	
Accounts Receivable	(3,593)
Prepaid Expenses	(2,390)
Changes in Liabilities:	
Accounts Payable	(6,606)
Accrued Payroll	12,826
Accrued Vacation Leave	(8,845)
	<hr/>
Net Cash Used for Operations	\$ (5,979,862)

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, 2007

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 78) 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, 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)

component unit of the State of North Carolina and the North Carolina Partnership's financial statements are included in the State's CAFR.

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

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

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

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

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

Nonexchange transactions, in which the North Carolina Partnership receives (or gives) value without directly giving (or receiving) equal value in exchange, include 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 includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- F. Investments** – This classification includes money market funds and nonnegotiable certificates of deposit with original maturities of more than three months. The money market 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 state government. 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 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 more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings, 5 to 30 years for other structures and improvements, and 3 to 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. Due to the State** – The funding provided by the State of North Carolina for the Smart Start program is funded on a cost reimbursement basis. The money is earned to the extent of allowable costs incurred. Any unexpended funds as of June 30th are required to be reverted to the State of North Carolina.
- L. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities consist of compensated absences that will not be paid within the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- M. 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.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method

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.

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

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

Restricted Net Assets – 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 include resources derived from unrestricted gifts and interest income.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

P. 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 foundations 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 noncurrent 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2007, the carrying amounts and bank balances of cash on deposit were:

	Carrying Amounts	Bank/Broker Balance
Checking Account	\$ 186,498	\$ 351,959
Long-Term Certificates of Deposit	<u>2,964,859</u>	<u>3,012,441</u>
Total Deposits	<u>\$ 3,151,357</u>	<u>\$ 3,364,400</u>

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions and represents the North Carolina Partnership's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2007. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks association with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reporting", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The North Carolina Partnership's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. 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 bank deposits in excess of the FDIC insured limit totaled \$2,301,729 at June 30, 2007.

- B. Investments** – There are no legal limitations on the types of investments by the North Carolina Partnership; and the North Carolina Partnership has adopted formal investment policies and manages its investments to ensure they can be converted into cash when needed. At June 30, 2007, the North Carolina Partnership's investments at fair value, as well as information about interest rate risk and credit risk, were as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment Type	Fair Value	Properties of Debt Investments Weighted Avg Maturities	Ratings
Debt Investment: Money Market Funds	\$ 921,454	0.0 years	Unrated
Other Investment: Certificates of Deposit	<u>2,964,859</u>		
Total Investments	<u>\$ 3,886,313</u>		

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

A reconciliation of deposits and investments for the North Carolina Partnership to the basic financial statements at June 30, 2007, is as follows:

	Amount
Petty Cash	\$ 150
Carrying Amount of Deposits with Private Financial Institutions	186,498
Investments in the Short Term Investment Fund	49,169
Money Market Funds	921,454
Investment in Certificates of Deposit	<u>2,964,859</u>
Total Deposits and Investments	<u>\$ 4,122,130</u>
Current:	
Cash and Cash Equivalents	\$ 235,817
Investments	921,454
Noncurrent:	
Investments	<u>2,964,859</u>
Total Deposits and Investments	<u>\$ 4,122,130</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

A. Accounts Receivable – The gross accounts receivable were:

	June 30, 2007
Due from Local Grantees	\$ 1,238,085
Interest Receivable	66,601
Sales Tax Receivable	35,299
Other Receivables	6,981
Total Accounts Receivable	\$ 1,346,966

The North Carolina Partnership expects to collect these receivables.

B. Pledges Receivable – The North Carolina Partnership has pledges receivable in the amount of \$3,137,500 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, 2007
2008	\$ 1,354,500
2009	1,109,500
2010	673,500
Total Pledges Receivable	\$ 3,137,500

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital Assets, Depreciable:				
Machinery and Equipment	\$ 325,428	\$ 63,365	\$ 26,017	\$ 362,776
Less Accumulated Depreciation	183,150	44,854	26,017	201,987
Capital Assets, Depreciable, Net	\$ 142,278	\$ 18,511	\$ 0	\$ 160,789

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Current Portion
Accrued Vacation Leave	\$ 208,240	\$ 177,603	\$ 186,448	\$ 199,395	\$ 43,135

NOTE 6 - LEASE OBLIGATIONS - OPERATING

The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2007:

Fiscal Year	Operating Leases
2008	\$ 334,005
2009	337,854
2010	321,967
2011	272,763
Total Minimum Lease Payments	\$ 1,266,589

Rental expense for all operating leases during the year was \$318,272.

NOTE 7 - FUNCTIONAL EXPENSES

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

A. Program Functions

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

NOTE 8 - DEFERRED COMPENSATION PLAN

Supplemental Retirement Income Plan – IRC Section 401(k) Plan – The North Carolina Partnership provides a Supplemental Retirement Income Plan (Plan), which is a defined contribution plan, created under Internal Revenue Code Section 401(k). The Plan is open to all employees who have attained the age of 18 and have at least three months service. The North Carolina Partnership makes a safe-harbor contribution to the Plan each year equal to 3% of the participants' compensation and may make additional discretionary employer contributions. For the year ended June 30, 2007, the North Carolina Partnership's Plan contributions were \$197,977.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 - COMMITMENTS

The North Carolina Partnership has outstanding commitments on cost-reimbursement contracts totaling \$30,000 as of June 30, 2007.

NOTE 11 - RELATED PARTY TRANSACTIONS

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.

The North Carolina Partnership for Children, Inc.
Schedule of Functional Expenses
For the Year Ended June 30, 2007

Schedule 1

	Total	Salaries and Benefits	Contracted Services	Supplies and Materials	Other Operating Expenses	Noncapitalized Equipment / Depreciation	Contract / Grant Expense
Programs:							
Comprehensive Training Events	\$ 136,557	\$ 0	\$ 95,796	\$ 281	\$ 40,480	\$ 0	\$ 0
Contracts	224,002	218,067	1,230	257	4,448		
Finance	179,143	167,426		500	11,217		
Financial Services	507,917	467,535		462	39,920		
Fiscal	102,815	89,293	10,835	378	2,309		
Human Resources	119,468	86,202	11,171	75	22,020		
Leadership Smart Start	187,996	93,701	63,720	442	24,382	351	5,400
Local Partnership Administration	15,503,958						15,503,958
Local Partnership Services	108,784,450						108,784,450
MAC	1,566,785	237,684	26,354	6,365	73,033	49,597	1,173,752
Program and Planning	1,118,083	946,331	118,290	1,296	47,166		5,000
Public Information	402,555	302,370	48,239	1,206	51,320		(580)
Technical Assistance - Other States	884,466	175,008	245,773	406	333,279		130,000
Technology Department	424,471	226,342	17,180	81,719	52,490	46,740	
	<u>130,142,666</u>	<u>3,009,959</u>	<u>638,588</u>	<u>93,387</u>	<u>702,064</u>	<u>96,688</u>	<u>125,601,980</u>
Support:							
Administration	1,308,059	557,989	213,275	18,313	464,686	45,296	8,500
Development	191,363	168,174		12	7,677		15,500
	<u>1,499,422</u>	<u>726,163</u>	<u>213,275</u>	<u>18,325</u>	<u>472,363</u>	<u>45,296</u>	<u>24,000</u>
Total Expenditures	<u>\$ 131,642,088</u>	<u>\$ 3,736,122</u>	<u>\$ 851,863</u>	<u>\$ 111,712</u>	<u>\$ 1,174,427</u>	<u>\$ 141,984</u>	<u>\$ 125,625,980</u>

***The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2007***

Schedule 2

Organization Name	Amount Expended	Refund Due
Alamance Partnership for Children	\$ 1,330,201	\$ (21,670)
Albemarle Smart Start Partnership, Inc.	1,108,956	(45,315)
Alexander County Partnership for Children, Inc.	585,879	(25,013)
Alleghany Partnership for Children, Inc.	214,713	(54)
Anson County Partnership for Children	610,694	
Ashe County Partnership for Children	471,731	(193)
Avery County Smart Start: A Partnership for Children	257,665	(712)
Beaufort/Hyde Partnership for Children	616,178	(5,522)
Bladen Smart Start-A Partnership for Children, Inc.	518,961	(26,052)
Buncombe County Partnership for Children, Inc.	2,811,598	(4,788)
Burke County Smart Start, Inc.	2,207,804	(19,922)
Cabarrus County Partnership for Children	*	2,198,260
Caldwell County Smart Start a Partnership for Young Children	1,793,851	(53,243)
Carteret County Partnership for Children	844,771	(1,178)
Caswell County Partnership for Children	294,781	(6,938)
Catawba County Partnership for Children	2,194,594	(6,170)
Chatham County Partnership for Children	1,070,932	(6,117)
Children and Youth Partnership for Dare County, Inc.	508,390	(3,968)
Children's Council of Watauga County, Inc.	303,686	
Cleveland County Partnership for Children, Inc.	1,759,938	(10,445)
Columbus County Partnership for Children, Incorporated	506,435	(17,787)
Craven Smart Start, Inc.	1,058,660	(14,991)
Down East Partnership for Children	*	3,321,297
Duplin County Partnership for Children	966,524	(23,012)
Durham's Partnership for Children	*	3,237,758
Franklin-Granville-Vance Partnership for Children, Inc.	1,921,685	(57,673)
Guilford County Partnership for Children, Inc.	5,256,218	(15,607)
Harnett County Partnership for Children, Inc.	1,453,576	(18,345)
Hertford County Partnership for Children, Inc.	567,042	(2,400)
Hoke County Partnership for Children and Families	1,237,802	(4,679)
Iredell County Partnership for Young Children, Inc.	1,865,669	(1,637)
Jones County Partnership for Children	313,669	(877)
Lee County Partnership for Children	933,002	(15,340)

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2007

Schedule 2
Page 2

Organization Name	Amount Expended	Refund Due
Lenoir/Greene County Partnership for Children	1,765,092	(17,035)
Madison County Partnership for Children and Families, Inc.	547,241	(7,999)
Martin/Pitt Partnership for Children, Inc.	1,737,975	(3,338)
McDowell County Partnership for Children and Families, Inc.	853,064	(3,995)
Mecklenburg Partnership for Children	10,311,243	(125,284)
Montgomery County Partnership for Children	739,877	(300)
Northampton Partnership for Children, Inc.	234,664	(1,379)
Onslow County Partnership for Children, Inc.	2,924,470	(31,615)
Orange County Partnership for Young Children	2,986,049	(1,647)
Pamlico Partnership for Children, Inc.	220,282	
Partners for Children and Families, Inc. (Moore County)	1,106,688	(12,067)
Partnership for Children of Cumberland County, Inc.	6,403,414	(58,956)
Partnership for Children of Johnston County, Inc.	1,998,355	(22,605)
Partnership for Children of Lincoln/Gaston Counties, Inc.	3,470,597	(36,280)
Person County Partnership for Children	741,236	(8,057)
Randolph County Partnership for Children	1,762,219	(28,455)
Region A Partnership for Children	1,855,570	(13,359)
Richmond County Partnership for Children	971,913	(289)
Robeson County Partnership for Children	2,747,894	(17,054)
Rockingham County Partnership for Children, Inc.	1,285,408	(21,867)
Rutherford/Polk Smart Start Partnership	1,267,659	(27,517)
Sampson County Partnership for Children	1,047,635	(6,106)
Scotland County Partnership for Children and Families, Inc.	625,993	(5,530)
Smart Start of Brunswick County, Inc.	1,038,128	(12,857)
Smart Start of Davidson County, Inc.	2,494,109	(2,686)
Smart Start of Davie County, Inc.	504,426	(2,714)
Smart Start of Forsyth County	6,303,849	(33,248)
Smart Start of Henderson County, Inc.	989,261	(938)
Smart Start of New Hanover County	1,553,827	(187)
Smart Start of Pender County, Inc.	606,667	(3,281)
Smart Start of Transylvania County	216,708	(1,743)
Smart Start of Yadkin County, Inc.	652,375	(3,061)
Smart Start Rowan, Inc.	1,881,825	(7,430)

The North Carolina Partnership for Children, Inc.
Schedule of Contract and Grant Expenses
For the Year Ended June 30, 2006

Schedule 2
Page 3

Organization Name	Amount Expended	Refund Due
Stanly County Partnership for Children	1,375,557	(25,712)
Stokes Partnership for Children	733,943	(3,496)
Surry County Early Childhood Partnership	1,290,196	(18,615)
The Bertie County Partnership for Children, Inc.	364,175	(3,959)
The Chowan/Perquimans Smart Start Partnership	422,474	(3,900)
The Halifax-Warren Smart Start Partnership for Children, Inc.	1,228,317	(6,800)
The Mitchell-Yancey County Partnership for Children, Inc.	427,006	(869)
The Partnership for Children of Wayne County, Inc.	1,326,308	(20,517)
Tyrrell-Washington Partnership for Children, Inc.	330,106	(1,374)
Union Smart Start	1,533,845	(882)
Various Other Organizations	129,400	
Wake County SmartStart	8,002,094	(51,067)
Wilkes Community Partnership for Children	812,903	(560)
Wilson County Partnership for Children	605,607	(11,185)
	<u>\$ 126,770,564</u>	<u>\$ (1,144,584)</u>

* These organizations are represented on the Partnership's Board as described in Note 11 - Service Provider Contracts with Board Member Organizations.

The North Carolina Partnership for Children, Inc.
Schedule of State Awards
For the Year Ended June 30, 2007

Schedule 3

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
State Awards:			
North Carolina Department of Health and Human Service			
Division of Child Development			
Early Childhood Initiatives Program	*	\$ 124,150,990	\$ 124,150,990
Early Childhood Initiatives Program	*	<u>6,020,680</u>	<u>6,020,680</u>
Total State Awards		<u><u>\$ 130,171,670</u></u>	<u><u>\$ 130,171,670</u></u>

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

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Leslie W. Merritt, Jr., CPA, CFP
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
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of The North Carolina Partnership for Children, Inc., a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated May 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Carolina Partnership's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Carolina Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Carolina Partnership's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the North Carolina Partnership's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the North Carolina Partnership's financial statements that is more than inconsequential will not be prevented or detected by the North Carolina Partnership's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial

**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)**

statements will not be prevented or detected by the North Carolina Partnership's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Carolina Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Leslie W. Merritt, Jr.

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

May 28, 2008

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