

2011 Progress Report

CITIZENS OF THE COMMONWEALTH

Virginia is facing serious business and workforce challenges in the years ahead, in the form of fierce competition that threatens Virginia's standing as one of the best places in the world to do business. These challenges are coming from places like India and China, which are graduating more honor students each year than the United States has in total high school graduates. In these countries, high-performing graduates are receiving advanced degrees in mathematics, engineering, technology, and science. These nations are gaining a competitive edge that is already taking jobs overseas.

The Virginia Early Childhood Foundation (VECF) serves as a public-private partner with state government and the business community to make certain that Virginia has a homegrown workforce that is capable of maintaining the Commonwealth's competitive edge. We focus investments and strategies where they have the greatest positive impact—at the beginning of the workforce pipeline. It is proven that high quality activities which spark the curiosity of young minds will plant the seeds of lifelong learning, success, and innovation.

The Virginia Early Childhood Foundation believes that doing right by our children is what will build the foundation for Virginia's continued economic prosperity. We invite your growing support to face the challenges and win the competitive edge—for our children, our families, our businesses, and our Commonwealth.



SMART BEGINNINGS™

Virginia Early Childhood Foundation



Readying The Next Generation of Working Virginians

The Virginia Early Childhood Foundation (VECF) serves as a conduit to support the next generation of working Virginians. Our purpose is to bring proven strategies, innovations, and efficiencies to the myriad of early childhood programs and services that span the Commonwealth. This is achieved through our partnership with state government, and through the network of local Smart Beginnings partners that we support across Virginia. Our partnerships are aligned with economic and workforce development initiatives, because investments in young children are human capital investments that build the infrastructure for tomorrow's business success.

The VECF receives a modest annual appropriation from the General Assembly. With those funds as an anchor, additional resources are leveraged that are typically 3 - 4 times greater than public investments. These funds, along with technical assistance, are provided to Smart Beginnings partners. Together, we work to maximize investments in young children in ways that build their capacity to become bright, capable, and productive citizens who will strengthen our communities, businesses, and nation for years to come.

“Verizon has partnered with the VECF to engage business leaders across the Commonwealth around matters of school readiness. We do this because it is critical that Virginia has skilled and committed workers for the jobs of tomorrow. Verizon recognizes that today's young children are tomorrow's workforce.”

B. Keith Fulton
Vice President, Virginia
Verizon Communications, Inc.



Thomas N. Chewning
Chairman of the Board



Scott L. Hippert
President

OUR MISSION

To provide collaborative leadership to foster Smart Beginnings for all young children in Virginia, and through them, a vital future for the Commonwealth.

OUR VISION

All children in Virginia enter kindergarten healthy and ready to succeed in school and life.

Virginia's Human Capital: From Cradle to Career

THE CASE FOR SCHOOL READINESS

A mounting body of evidence proves that early childhood experiences—those taking place between birth and age five—dramatically impact an individual's ability to experience lifelong success.

The recently released Chicago Longitudinal Study tracked attendees of the Chicago Parent-Child Centers, a program designed to provide high quality experiences from pre-k through 3rd grade in the inner city's public schools. Twenty-five years later, at age 28, these attendees achieved the following positive outcomes as opposed to those who did not receive similar experiences:¹

- 9% more** completed high school
- 19% more** carried some level of health insurance coverage
- 20% more** achieved moderate or higher level of socioeconomic status
- 28% fewer** had been incarcerated
- 28% fewer** abused drugs and alcohol

RECOGNIZING THE OPPORTUNITY

American children are falling behind their peers at an alarming pace and the long-term consequences could be economically devastating. Through Smart Beginnings, the VECF is seizing a "once in a lifetime" opportunity to change the current trajectory, focusing the Commonwealth's investments on human capital, at a time of life when there is the greatest potential.

Staggering statistics prove the need for increased school readiness:

- 1 in 7 children enters kindergarten without the basic skills needed to succeed in school;²
- In a recent examination of 15-year-olds in 65 countries, the U.S. ranked 15th in reading, 23rd in science, and 31st in math;³
- Approximately 10,000 K-3 students in Virginia repeat a grade each year, costing \$80 million;⁴

- 75% of young Americans are ineligible for military service due to failure to graduate high school, a lack of physical or mental fitness, or a criminal conviction;⁵
- If American students had experienced the same educational success of higher-performing nations during the 80's and 90's, the 2008 U.S. GDP could have been \$1.3 – 2.3 trillion higher.⁶

SOLUTIONS WITH HIGH RETURNS

In 2003, Art Rolnick and Rob Grunewald of the Minneapolis Federal Reserve Bank studied the data from the well-known HighScope Perry Preschool Program from an economic viewpoint. They determined that pre-k for at-risk children may yield a return of up to 16%.⁷ These findings clearly demonstrate a powerful financial incentive for increased investments in early childhood development.

RIISING TO THE OCCASION

Over the course of 2010-11, the Virginia Early Childhood Foundation made great progress in moving Virginia's youngest citizens towards workplace and life achievement. Despite the nation's economic downturn, the VECF continued to leverage public and private resources and to invest in the capacity of our Smart Beginnings partners to improve the school readiness of young children in their communities.

¹School-Based Early Childhood Education and Age-28 Well-Being: Effects by Timing, Dosage, and Subgroups. Arthur J. Reynolds, Judy A. Temple, Suh-Ruu Ou, Irma A. Arteaga, and Barry A. B. White Science 9 June 2011.

²The Annie E. Casey Foundation: KIDS COUNT Data Center. (2010). PALS-K Scores.

³Organisation for Economic Co-operation and Development. (2009). PISA 2009 at a Glance.

⁴Randall, P. P. (2010). Preschool Education in Virginia and the Resulting Academic Effects for Third- and Fifth-Grade At-Risk Students.

⁵Mission: Readiness. (2009). Ready, Willing and Unable to Serve.

⁶McKinsey & Company. (2009). The Economic Impact of the Achievement Gap in America's Schools.

⁷Rolnick, A., & Grunewald, R. (2003). Early Childhood Development with a High Public Return.



VIRGINIA: THE BEST PLACE TO DO BUSINESS¹

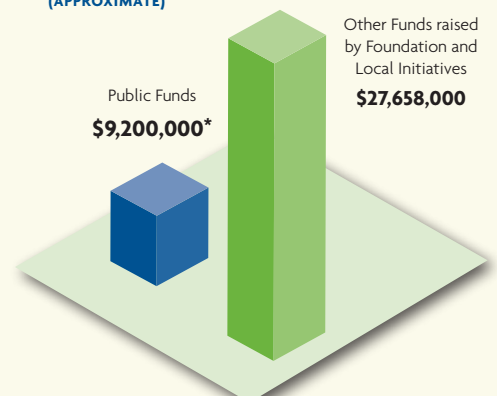
Vigorous economy. Bright minds. Healthy citizens. High-quality of life. Minimal social ills. These are hallmarks of a fertile business environment, and the end goals of the VECF's efforts.

Our philosophy is simple: Maximize investments in the youngest Virginians so that businesses continue to make investments in Virginia.

¹ CNBC's 2011 ranking of the most business-friendly states

SMART BEGINNINGS INVESTMENTS SINCE 2006

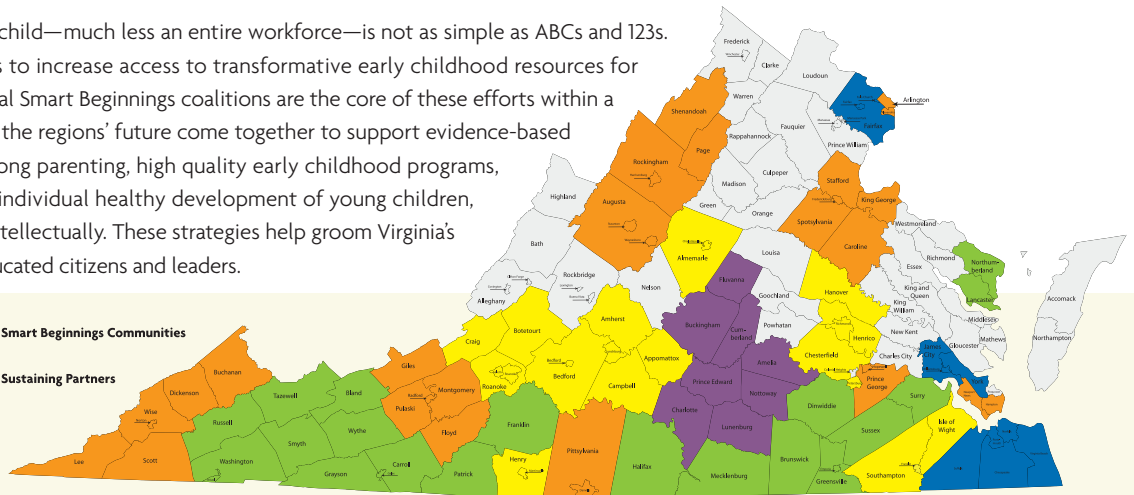
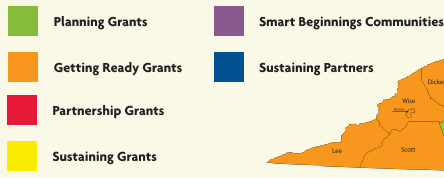
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* Includes temporary project funds from the American Recovery and Reinvestment Act

Smart Beginnings: Regional Efforts, Statewide Impact

Developing a future-ready child—much less an entire workforce—is not as simple as ABCs and 123s. That’s why the VECF works to increase access to transformative early childhood resources for families across Virginia. Local Smart Beginnings coalitions are the core of these efforts within a region. Key stakeholders in the regions’ future come together to support evidence-based practices that focus on strong parenting, high quality early childhood programs, increased literacy and the individual healthy development of young children, socially, emotionally and intellectually. These strategies help groom Virginia’s next generation of well-educated citizens and leaders.



SMART BEGINNINGS: INFRASTRUCTURE, RELATIONSHIPS, RESULTS

Through regional Smart Beginnings initiatives, the VECF is building a unified system of high quality school readiness delivery systems. The Foundation provides financial resources and technical assistance to Smart Beginnings as they progress towards self sustainability. With 5 new coalitions in 2010-11, this network covers 87% of Virginia’s population, with 28 coalitions serving 93 Commonwealth localities.

Planning Grantees

- Smart Beginnings Crater
Emporia, Dinwiddie, Greensville and Sussex
- Smart Beginnings Wythe Bland
Wythe, Bland
- Smart Beginnings Twin Counties
Grayson, Carroll, Galax
- Smart Beginnings Virginia Highlands
Russell, Washington, Bristol
- Smart Beginnings Southside
Halifax, Mecklenburg, Brunswick
- Smart Beginnings Northumberland Lancaster
Northumberland, Lancaster
- Smart Beginnings Franklin Patrick
Franklin County, Patrick
- Smart Beginnings Smyth Tazewell
Smyth, Tazewell

Getting Ready Grantees

- Smart Beginnings Shenandoah Valley
Staunton, Waynesboro, Shenandoah, Augusta
Page, Rockingham, Harrisonburg
- Smart Beginnings Appalachia
Lee, Scott, Wise, Norton

- Smart Beginnings Southwest
Dickenson, Buchanan
- Smart Beginnings New River Valley
Floyd, Giles, Montgomery, Pulaski, Radford
- Smart Beginnings Danville Pittsylvania
Pittsylvania, Danville
- Smart Beginnings Virginia Peninsula
Hampton, Newport News
- Smart Beginnings Rappahannock Area
Fredericksburg, Stafford, Spotsylvania, Caroline,
King George
- Smart Beginnings Hopewell Prince George
Hopewell, Prince George, Ft. Lee
- Smart Beginnings Alexandria Arlington
Alexandria, Arlington

Sustaining Grantees

- Smart Beginnings Central Virginia
Bedford City & County, Lynchburg, Amherst,
Appomattox, Campbell
- Smart Beginnings Martinsville Henry County
Martinsville, Henry
- Smart Beginnings Western Tidewater
City of Franklin, Southampton, Isle of Wight

- Smart Beginnings Greater Roanoke
Roanoke City & County, Botetourt, Craig,
Salem, Vinton
- Smart Beginnings Charlottesville Albemarle
Charlottesville, Albemarle
- Smart Beginnings Greater Richmond
Richmond, Chesterfield, Hanover, Henrico, Petersburg

Sustaining Partners

- Smart Beginnings Historic Triangle
James City County, Williamsburg, York County
- Fairfax County Office for Children
Fairfax
- Smart Beginnings South Hampton Roads
Chesapeake, Norfolk, Portsmouth, Suffolk,
Virginia Beach

Smart Beginnings Communities*

- Smart Beginnings Fluvanna
Fluvanna
- Smart Beginnings Heartland
Amelia, Buckingham, Charlotte, Cumberland,
Lunenburg, Nottoway, Prince Edward

* SB initiatives continue, but are not currently funded by VECF

WAYS SMART BEGINNINGS IS WORKING TO PREPARE TOMORROW’S WORKFORCE:

Strong Region, Strong Economy: Smart Beginnings Greater Richmond partners with the Capital Region Collaborative in an innovative effort to build a stronger regional economy through future workforce development. The VECF is working with other Planning Districts across Virginia to build additional partnerships that focus on the cradle to career workforce pipeline.

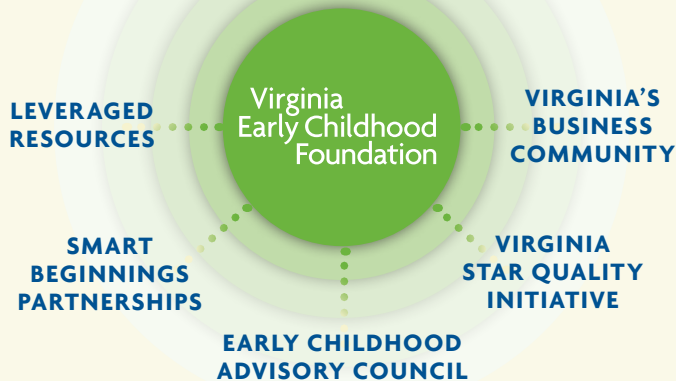
Effective Parenting: Smart Beginnings Martinsville Henry County saw a 190% increase in the number of parents attending evidence-based parenting classes using the nationally recognized Triple P model. This program involves six regional partner organizations that share costs, coordination and outreach. The results include highly effective parents, healthy and literate children, and young learners ready to take on the challenges of education and future success.

Strengthening Small Business: Roanoke area childcare centers and classrooms that participated in the Virginia Star Quality Initiative (VSQI) saw an overwhelming 76% improvement rate in their learning environments. Child care businesses are among the largest number of small business in Virginia. The VSQI is helping them become better businesses, and produce greater results with young children.

Visit www.smartbeginnings.org to learn more about each coalition’s achievements and progress.



Collaboration: Partnering for Virginia's Future



The Virginia Early Childhood Foundation is at the core of advancing Virginia's early childhood development efforts.

As a public-private partnership with strong ties to business, state government and the military, we utilize private sector solutions and efficiencies to ensure school readiness for Virginia's youngest citizens. Our innovative collaborations evolved over the last year in ways that strengthen Virginia's capacity to shape tomorrow's job-ready workforce.

PARTNERING WITH GOVERNMENT FOR A MORE PROSPEROUS VIRGINIA

Operating as a public-private partnership with state government, and by appointment of the Governor, the VECF co-leads **Virginia's Early Childhood Advisory Council**, a strategic alliance of government and private leaders, designed to move early childhood initiatives forward. Foundation President Scott Hippert, with Secretary of Education Gerard Robinson, brought leaders together for the Council's first meetings.

The Foundation works with the Office of Early Childhood Development to co-lead the **Virginia Star Quality Initiative (VSQI)**, the state's quality ratings and improvement system. The VSQI improves the quality of classroom-based programs and family child care through rating, mentoring, and professional development. Expanding access to quality early care is a win for everyone— children, working parents, and businesses.

The VSQI grew significantly in 2010-11. Some impressive results include:

Over 8,600 Virginia children are enrolled in childcare and preschool settings that are actively working to improve their quality;

A total of **336 classroom-based programs** have been rated, including 147 new programs rated this year—a 47% increase over 2009-10;

An innovative pilot project to rate and improve the quality of **family child care day homes** has been completed, creating a promising new model. During 2010-11, 74 homes in 6 Virginia localities were rated and received mentoring during the pilot project;

Strategic evaluation plans have been developed to build the infrastructure for a fully implemented VSQI. The long-term result will be **higher quality childcare and pre-k options for families across Virginia**, resulting in many more young children prepared to succeed in school and beyond.



SCHOOL READINESS IMPACTS NATIONAL SECURITY

The fundamental link between school readiness and a future-ready military is clear. Over the past year, VECF has worked with Mission: Readiness, an organization comprised of military leaders who share a deep concern for the future of America's military preparedness. Together, we have worked to connect the dots and spread our common message: enhanced school readiness efforts are critical to both a strong, capable military as well as a competitive, next-generation workforce.



"I believe that the American education system and the armed forces have an essential, but sometimes unrecognized, partnership... our national security in the year 2030 is absolutely dependent on what's going on in pre-kindergarten today."

Jamie Barnett, Rear Admiral, US Navy (Ret).
Mission: Readiness
Speaking at a Smart Beginnings Business Leader Summit

For more information on the benefits of VSQI and for locations of rated centers, visit www.smartbeginnings.org.

INVESTING IN THE COMMONWEALTH'S FUTURE WORKFORCE: THE ULTIMATE CORPORATE RESPONSIBILITY

Future workforce development is an absolute economic imperative— and at the heart of VECF efforts. The Foundation mobilized the business community in support of these efforts through the VA Job One initiative. With seed funding from the PEW Center for the States, VA Job One engaged more than 700 business leaders as champions of school readiness.

“Virginia businesses are critically concerned about maintaining a high quality workforce into the future. The Virginia Chamber of Commerce and the Virginia Early Childhood Foundation are working together to ensure strategies that support the beginning stages of workforce development.”



Developing the potential of young children maximizes Virginia's investments in workforce capacity and strengthens businesses for decades into the future.”

Barry DuVal
President & CEO
Virginia Chamber of Commerce

REGIONAL MOMENTUM IS KEY TO SMART BEGINNINGS SUCCESS

As of this printing, the VECF is building a partnership with the Northern Virginia Regional Commission to help promote, grow and support Smart Beginnings throughout the region.

“The Northern Virginia Regional Commission works closely with the Virginia Early Childhood Foundation to make certain our region has a strong and capable workforce for the future. As we focus on economic and workforce development, it is critical that we invest in the very beginning of this pipeline. The NVRC and the VECF have a common objective— to maintain the economic engine of Northern Virginia.”



G. Mark Gibb
Executive Director
Northern Virginia Regional Commission

DANVILLE REGIONAL FOUNDATION INVESTS IN LOCAL TRANSFORMATION IN THE SOUTHSIDE

The VECF and United Way of Danville and Pittsylvania County worked closely with Smart Beginnings Danville Pittsylvania to secure an extraordinary \$5.4 million investment from the Danville Regional Foundation.

This 5-year grant builds on investments from the Virginia Tobacco Indemnification and Community Revitalization Commission to transform the region's ability to have school-ready children for future world-class jobs. The ultimate goal is to replicate this remarkable success throughout Virginia. This initiative has worked hard to establish a successful model for rural communities that dramatically moves the school readiness needle.

PNC ADDS STEAM TO SMART BEGINNINGS IN NOVA

The economic engine of Northern Virginia will continue to be fueled by high functioning young children who will be tomorrow's workforce. With generous support from the PNC Foundation, the VECF Board approved the addition of Smart Beginnings Prince William County at its annual meeting on June 15th. They join a growing Smart Beginnings effort in the region, that currently includes Fairfax, Alexandria/Arlington, and Rappahannock area.

DOMINION FOUNDATION BOOSTS SOUTHWEST SMART BEGINNINGS

Recognizing the link between the young children in their communities and the future prosperity of the whole of southwestern Virginia, the Dominion Foundation granted \$100,000 to Smart Beginnings coalitions in the region.

“Dominion is pleased to help fund the outstanding efforts of the Virginia Early Childhood Foundation.”

The key to a robust future for the Commonwealth lies in the education our children are receiving today.”

Virginia M. Board,
President
Dominion Foundation

Multiple Sectors Require School Readiness



“Averett University and the Virginia Early Childhood Foundation have a common purpose: To provide Virginia with intelligent and productive leaders for the future. Through the Smart Beginnings initiative, the VECF invests in children who become our future students. They not only provide

seed funding to support this work, they provide for the seeds of lifelong learning. We appreciate the investments of the VECF in Southside Virginia.”

Dr. Tiffany Franks
President
Averett University



“Wells Fargo is committed to Virginia and the communities where we offer financial services. We can make no greater commitment than to our youngest children. They are the future of our communities and Virginia’s economic strength. Wells Fargo supports the Virginia

Early Childhood Foundation, and our local branches are increasingly active in Smart Beginnings. We believe that young children are serious business.”

Tim Butturini
Regional President
Wells Fargo

“Health is both a building block and an outcome of successful development. Good health is necessary for raising resilient students and citizens; toxic psychosocial stressors induce biochemical changes in DNA, which can be correlated to adverse health outcomes. The Virginia Early Childhood Foundation supports communities whose services mitigate the effects of toxic stress and improve the probability of a healthy, successful future for young children.”



Colleen A. Kraft, M.D., FAAP
Associate Professor of Pediatrics, Virginia Tech Carilion School of Medicine
and Research Institute Transitional Year Program Director, Carilion Clinic



“As one of Virginia’s largest corporations, Norfolk Southern is depending on a capable and talented workforce to grow our business into the future. But with so many young people not graduating, or performing below standards, we are concerned about the prospects of Virginia being able to deliver. We are grateful to the VECF for their work to strengthen young children, the future keys to business opportunity. We are pleased to support the work of the Virginia Early Childhood Foundation and Smart Beginnings.”

Jim Hixon
Executive Vice President, Law and Corporate Relations
Norfolk Southern Corporation



2010-11 Community Investments

Smart Beginnings successfully engaged communities throughout the Commonwealth this year to secure matching funds to maximize VECF's investments. This generous support positively impacted young children and their families in all regions across Virginia. We are grateful to the following supporters for their commitment to advancing school readiness as the primary means of ensuring Virginia's future economic vitality:

A Better World Foundation
 Albemarle County Department of Social Services
 Alexandria Department of Human Services
 Alexandria Health Department
 Alternatives, Inc.
 Amherst County Department of Social Services
 Appalachian Regional Commission
 Apple Spice Junction
 Appomattox County Schools
 Appomattox Literacy Intervention Program
 Arc of the Piedmont
 Arlington Department of Human Services
 Bank of America
 Bedford County Schools
 Birdsong Peanuts
 Bland County
 Bland County Department of Social Services
 Bland County Public Schools
 Blue Ridge Area Food Bank
 Blue Ridge PBS
 Cameron Foundation
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 Ceres Foundation
 Chesterfield Department of Social Services
 Chick-fil-A
 Child and Family Connection
 Child Development Resources
 Childcare Connection
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 Children's Museum of Richmond
 Children's Trust
 City of Charlottesville Community Development Block Grant
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 Communications Consortium Media Center
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 Cox Charities
 Danville Regional Foundation
 Daughters of Penelope
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 J.T. – Minnie Maude Charitable Trust
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 James City County Department of Social Services
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 Kroger
 Lacey Foundation
 Landford Brothers Co.
 LexisNexis
 Lynchburg City Schools
 Martinsville Henry County Coalition for Health and Wellness
 Max Meadows Head Start
 Mount Rogers Community Services Board
 National Healthy Mothers, Healthy Babies Coalition
 New Kent Department of Social Services
 New River Valley Chapter of the Society for Human Resource Management
 Norfolk Southern Foundation
 Obici Healthcare Foundation
 One Beacon
 Panera
 Patrick County Public Schools
 Piedmont Community Services
 Pizza Hut
 PNC Bank
 Preschool Partners of the Virginia Peninsula
 Radio Disney
 Rainbow Riders Childcare Center
 Rappahannock Area YMCA, Inc.
 Rappahannock United Way
 Ready by 21
 Roanoke City Department of Social Services
 Roanoke County Department of Social Services
 Roanoke Women's Foundation
 Robins Foundation
 Shenandoah Community Foundation
 Simventins, Inc.
 Southampton County
 Southside Virginia Community College
 Southwest Virginia Association for the Education of Young Children
 Spotsylvania County Department of Social Services (QI Funds through The Childcare Network)
 Stafford County Department of Social Services (QI Funds through The Childcare Network)
 State Farm
 Staunton City Schools
 STEP, Inc.
 STIHL
 SunTrust Bank
 The Children's Center
 The Community Foundation serving Richmond & Central Virginia
 The PNC Foundation
 The Roanoke Times/ Landmark Foundation
 United Way of Central Virginia
 United Way of Danville-Pittsylvania County
 United Way of Franklin County
 United Way of Greater Richmond & Petersburg
 United Way of Greater Williamsburg
 United Way of Roanoke Valley

United Way Thomas Jefferson Area
 Verizon
 Verizon Foundation
 Virginia Department of Education Region 5 Training and Technical Assistance Center
 Virginia Department of Housing and Community Development
 Virginia Department of Social Services
 Virginia Department of Social Services-Office of Early Childhood Development
 Virginia Foundation for Healthy Youth
 Virginia Head Start Association
 Virginia Housing Development Authority
 Virginia Tech Institute for Policy and Governance
 W. W. Sale Foundation
 Wardle Family Foundation
 Waynesboro Public Schools
 Wiley Foundation
 Williamsburg Community Health Foundation
 Williamsburg Regional Library
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 Wythe County Department of Social Services
 Wythe County Public Schools
 Wytheville Community College
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INVESTMENTS NEEDED!

The Virginia Early Childhood Foundation seeks corporations, foundations as well as individuals to invest in the Smart Beginnings strategy for Virginia's future. Your contributions have the potential for a significant return on investment.

Online investments:

www.smartbeginnings.org

Mail:

Virginia Early Childhood Foundation
 8001 Franklin Farms Drive, Suite 116
 Richmond, VA 23229
 Phone: (804) 358-8323

The Impact of Leveraging

The VECF leverages the Commonwealth's generous support and secures investments from the private sector. We are especially grateful to the Governor and the General Assembly for validating the impact of the Virginia Early Childhood Foundation by restoring previous funding levels to our 2011-12 operating budget.

Sincere appreciation is extended to the following supporters for their 2010-11 contributions:

Government Support

American Recovery and Reinvestment Act
Virginia Cooperative Extension
Virginia Department of Education
Virginia Department of Health
Virginia Department of Social Services
Virginia Early Childhood Advisory Council
Virginia General Assembly
Virginia Tobacco Indemnification & Community Revitalization Commission

Rutherford & Katherine Ferguson*

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* Founding Member of Virginia KidsNow!

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President, Bruhn-Morris Family Foundation
Alexandria, Virginia

Dr. Thomas R. Morris

President
Virginia Foundation for Independent Colleges
Richmond, Virginia

The Honorable Charles D. Poindexter

Virginia House of Delegates
Glade Hill, Virginia

The Honorable Frederick M. Quayle

Senate of Virginia
Suffolk, Virginia

The Honorable Gerard Robinson

Secretary of Education
Richmond, Virginia

Pamela J. Royal, M.D.

President
Royal Dermatology & Aesthetic Skin Care, Inc.
Richmond, Virginia

Dr. Novella J. Ruffin

Asst. Professor & Child Development Specialist
Virginia Cooperative Extension, Virginia State University
Petersburg, Virginia

*Retired on June 30, 2011

STAFF (as of August 15, 2011)

Scott L. Hippert

President

Karin Bowles

Assistant Director of Development
and Government Affairs

Markella Budesky

Program Officer

Maria Brown

Vice President of Programs

Dora Butler

Program Officer

Stacey Collier

Finance Manager

Heather Farber

Administrative Support Coordinator

Betty Garrett

VSQI Specialist

Dawn Greggs

Development Associate

Cathryn Lowe

Vice President of Resource Development

My linda Moore

Senior Program Officer

Stephanie O'Neill

Executive Administrator

Janora Parker

VSQI Assistant

Miriam Rushfinn

Program Officer

Eddie Williams

Director of Communications
and Operations

VIRGINIA EARLY CHILDHOOD FOUNDATION

Financial Statements

June 30, 2011

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

VIRGINIA EARLY CHILDHOOD FOUNDATION

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Independent Auditors' Report

The Board of Directors
Virginia Early Childhood Foundation
Richmond, Virginia

We have audited the accompanying statement of financial position of Virginia Early Childhood Foundation (VECF) as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of VECF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

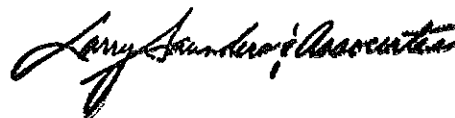
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and 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 VECF as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2011, on our consideration of VECF' 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of VECF taken as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," is not required parts of the basic financial statements. Such information 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.

September 26, 2011



**VIRGINIA EARLY CHILDHOOD FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011**

ASSETS

Current Assets	
Cash and Cash equivalents (note 1.e and 11)	\$ 1,755,686
Contributions Receivable (note 7)	1,664,828
Prepaid Expenses	12,627
Grantee Advances	37,709
Other Assets	<u>3,835</u>
Total current assets	3,474,685
Long-Term Contribution Receivable (note 7)	2,022,853
Equipment, Furniture, and Fixtures	18,135
Accumulated depreciation	<u>(11,283)</u>
Total assets	<u>\$ 5,504,390</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 646,051
Grants Payable	132,194
Accrued Expenses	<u>49,347</u>
Total current liabilities	<u>827,592</u>

NET ASSETS

Unrestricted	-
Temporarily restricted (Note 12)	<u>4,676,798</u>
Total net assets	<u>4,676,798</u>
Total liabilities and Net Assets	<u>\$ 5,504,390</u>

See accompanying notes to financial statements

**VIRGINIA EARLY CHILDHOOD FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL (MEMO ONLY)</u>
Public Support and Revenue			
Public Support			
Contributions (note 6 & 11)			
Individual and Board Contributions	\$ 109,619	\$ 200	\$ 109,819
Corporations	172,164	148,750	320,914
Foundations	50,037	5,403,703	5,453,740
Total Public Support	<u>331,820</u>	<u>5,552,653</u>	<u>5,884,473</u>
Revenue			
Government Grants	-	2,939,861	2,939,861
Interest Revenue	2,844	-	2,844
Total Revenue	<u>334,664</u>	<u>8,492,514</u>	<u>8,827,178</u>
Net Assets Released from Restrictions (note 13)	<u>4,564,251</u>	<u>(4,564,251)</u>	<u>-</u>
Total Support and Revenue	<u>4,898,915</u>	<u>3,928,263</u>	<u>8,827,178</u>
Expenses			
Program Services	3,362,122	-	3,362,122
ARRA Child Care Development	1,262,777	-	1,262,777
Total Program Services	<u>4,624,899</u>	<u>-</u>	<u>4,624,899</u>
Supporting Services			
Fund Raising	136,650	-	136,650
Public Education	30,931	-	30,931
Lobbying	7,124	-	7,124
Management and General	99,312	-	99,312
Total Expenses	<u>4,898,915</u>	<u>-</u>	<u>4,898,915</u>
Change in Net Assets	-	3,928,263	3,928,263
Net Assets, Beginning	<u>-</u>	<u>748,535</u>	<u>748,535</u>
Net Assets, Ending (note 12)	<u>\$ -</u>	<u>\$ 4,676,798</u>	<u>\$ 4,676,798</u>

See accompanying notes to financial statements.

**VIRGINIA EARLY CHILDHOOD FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011**

	ARRA Child Care Development	Total Programs	Lobbying	Public Education	Fund Raising	Management and General	Total
	Programs	Programs	Programs	Programs	Programs	Programs	Programs
Salaries (note 4)	\$ 540,228	157,167	697,394	-	-	75,031	837,701
Fringe Benefits	154,367	47,583	201,949	-	-	24,302	243,461
Total staff compensation	694,594	204,749	899,344	-	-	99,333	1,081,162
Professional Services	246,065	316,195	562,260	7,124	30,931	14,400	621,708
Supplies	9,467	38,777	48,244	-	-	1,137	50,104
Telecommunications	13,003	21,069	34,072	-	-	1,441	36,237
Postage	3,519	424	3,943	-	-	655	4,872
Furniture and Equipment	6,917	-	6,917	-	-	748	8,141
Leases (notes 3)	37,282	10,405	47,686	-	-	5,001	55,870
Equipment Repair and Maintenance	15,327	-	15,327	-	-	2,056	18,691
Printing and publications	(6,367)	10,485	4,118	-	-	1,593	6,491
Travel	26,615	22,933	49,548	-	-	1,708	51,601
Meetings and Events	34,355	47,133	81,488	-	-	3,967	85,716
Information/Membership	12,249	199	12,448	-	-	2,257	15,151
Professional Development	120	22,085	22,205	-	-	50	22,255
Computer Equipment	2,846	7,376	10,222	-	-	423	10,914
Insurance	4,006	212	4,218	-	-	566	5,144
Grants to Others	2,247,693	560,735	2,808,428	-	-	-	2,808,428
Publicity/Advertising	3,246	-	3,246	-	-	37	3,306
Other Expenses	6,109	-	6,109	-	-	819	7,296
Gifts	2,103	-	2,103	-	-	59	2,200
Total expenses before depreciation	3,359,148	1,262,777	4,621,925	7,124	30,931	136,251	4,895,288
Depreciation	2,974	-	2,974	-	-	399	3,627
Total expenses	\$ 3,362,122	1,262,777	4,624,899	7,124	30,931	136,650	4,898,915

See accompanying notes to financial statements.

**VIRGINIA EARLY CHILDHOOD FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011**

Cash Flows From Operating Activities

Change in net assets	<u>\$ 3,928,263</u>
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Adjustments to reconcile change in net assets to net cash provided (used) by operating activities

Depreciation	3,627
(Increase) decrease in pledges receivable	500
(Increase) decrease in contributions receivable	(3,411,865)
(Increase) decrease in grantee advances	(30,125)
(Increase) decrease in prepaid expenses	(6,999)
Increase (decrease) in accounts payable	599,283
Increase (decrease) in grants payable	(324,041)
Increase (decrease) in accrued expenses	<u>21,520</u>

Net Cash Provided (Used) by Operating Activities	<u>780,163</u>
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Cash Flows From Investing Activities

Furniture and Equipment purchases	<u>(3,320)</u>
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Net Cash Provided (Used) by Investing Activities	<u>(3,320)</u>
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Cash Flows From Financing Activities

Net increase (decrease) in cash and cash equivalents	776,843
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Cash and cash equivalents, beginning	<u>978,843</u>
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Cash and cash equivalents, ending (note 1e)	<u><u>\$ 1,755,686</u></u>
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See accompanying notes to financial statements.

**VIRGINIA EARLY CHILDHOOD FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

1. Summary of Significant Accounting Policies

The Virginia Early Childhood Foundation. (VECF) is a non-profit corporation exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. VECF is organized exclusively for educational and charitable purposes, to promote, aid and encourage early childhood education and services in the Commonwealth of Virginia, alone or in cooperation with governmental or other private bodies or agencies. It has no unrelated business income subject to federal income taxes under Section 511 of the Internal Revenue Code. It is funded principally from contributions and governmental grants. The following accounting policies unique to non-profit organizations are:

- a. Investment income derived from the investment of all funds is credited to revenue of current unrestricted funds in the periods earned.
- b. Donated fixed assets are recorded at fair market value when received.
- c. Donated services are recorded at fair market value as contributions and expenses when all of the following conditions are met:
 - 1. The services require specialized skills and are provided by individuals possessing those skills.
 - 2. The service would typically need to be purchased if not provided by donation.
 - 3. There is a clearly measurable basis for the amount recorded.

d. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

e. Disclosure of Accounting Policy

For the purpose of reporting cash flows, VECF considers all checking accounts and saving accounts and certificates of deposits with a maturity of three months or less to be cash and cash equivalents.

2. Land, Building, Equipment and Depreciation

Depreciation of equipment, furniture and fixtures is provided on a straight-line basis over the estimated useful lives of the assets. Equipment, furniture and fixtures are recorded on the books at cost or fair market value, if donated. Fixed asset purchases greater than \$1,000 are capitalized.

3. **Lease Commitments**

VECF entered into a forty-eight month lease as of April 2009 for a copier. Total payments made during the year under copier lease agreements was \$4,682.

VECF entered into a five year lease as of June 2010 for office space located in Richmond, Virginia. In September 2010, VECF also leased additional office space located in Richmond, Virginia for twelve months. Total payments made during the year for office space were \$55,870.

Future payments under these lease agreements are as follows.

<u>Year</u>	<u>Amount</u>
2012	\$ 51,415
2013	52,119
2014	50,026
2015	51,526
	<u>\$ 205,086</u>

4. **Accrued Vacation**

VECF provides paid vacation for all regular employees. Vacation is available on a pro-rated basis to regular part-time employees. Vacation accrues monthly based on length of service and/or negotiated time off. All full-time employees accrue twelve days annually with an additional one day per year for each year of service maxing out at twenty-five days.

5. **Pension Plans**

VECF employees participate in a tax-deferred annuity plan that is subject to section 403 (b) of the Internal Revenue code. The tax-deferred annuity was established to allow employees the opportunity to contribute toward their retirement benefits. VECF was not required to contribute to this tax-deferred annuity. It was established only for employees to make contributions up to the maximum contribution permitted by Internal Revenue Code. VECF employees also participate in a simplified employee pension plan in which VECF contributes 6% of the employee's total wages. Total retirement expense for the year was \$45,886.

6. **Contributions and Grants**

In accordance with Financial Accounting Standards Board Accounting Standards Codification 958-605-45, entitled Other Presentation Matters, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor and/or grantor restrictions. When a restriction expires or is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

**VIRGINIA EARLY CHILDHOOD FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

7. Contributions Receivable

	<u>0-1 year</u>	<u>1-5 Years</u>	<u>Total</u>
Promises to give	\$1,668,977	2,034,181	\$3,703,158
Less-discounts	<u>(4,149)</u>	<u>(11,328)</u>	<u>(15,477)</u>
Totals	\$1,664,828	2,022,853	\$3,687,681

Discounted promises to give that were expected to be received in one to five years were value at the present value of future cash flows. The effective interest rates used for discounted promises to give was .56%.

8. Functional Expenses

Expenses are charged directly to program or management and general categories based on specific identification. Indirect expenses have been allocated based upon direct compensation.

9. Financial Statements

The accompanying financial statements are presented in accordance with Accounting Standards Board Accounting Standards Codification 958-205 Presentation of Financial Statements, VECF is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

In addition, VECF is required to present statements of functional expenses and of cash flows. VECF has reclassified its financial statements to present the two classes of net assets that apply to them, unrestricted and temporarily restricted net assets.

10. FASB Accounting Standards Codification 740 Income Taxes

VECF adopted the provisions of Financial Accounting Standards Board Accounting Standards Codification 740 Income Taxes. Under FASB ASC 740 liabilities are recorded for unrecognized tax benefits, and any related interest and penalties, when it is more likely than not a tax position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no material uncertain tax positions or related interest and penalties at September 26, 2011 and accordingly no liability is accrued.

11. Cash and Investments

The Federal Deposit Insurance Corporation (FDIC) insures the accounts of each financial institution customer up to \$250,000 per financial institution. VECF has \$892,018 uninsured in its accounts with Wachovia.

12. Temporarily Restricted Net Assets

The temporarily restricted net assets consist of funds received from the Virginia General Assembly and other public contributions for the following future use:

Early Childhood Program and Infrastructure Development	\$ 4,676,798
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13. **Net Assets Released From Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose.

Purpose restriction accomplished:

Early Childhood Programs, Initiatives and Technical Assistance	\$ 3,175,756
ARRA Child Care Development Resource Development	1,262,777
	<u>125,718</u>
	\$ <u>4,564,251</u>

14. **Subsequent Event**

In preparing these financial statements, VECF has evaluated events and transactions for potential recognition or disclosure through September 29, 2011, the date the financial statements were available to be issued.

VECF also received funds in the subsequent year from the Virginia Department of Social Services pass through from the Federal Department of Health to expand the Virginia Star Quality Initiative (VSQI), the Quality Rating and Improvement System (QRIS). This award ended July 31, 2011.

During the subsequent year, VECF opened a line of credit. Funds from the line were used to cover cost reimbursement grants. The line is paid down upon receipt of the grant reimbursement from funders.

15. **Grant and Contract Support**

In accordance with the terms of its contract, VECF may use unexpended funds in future periods to the extent that expenses incurred are in compliance with the specified terms of the contract. Grantors may, at their discretion, request reimbursement or return of funds, or both, as a result of non-compliance by VECF with the terms of the contract.

16. **Concentrations**

Over eighty percent of VECF funding comes from the Danville Regional Foundation and Virginia General Assembly.

17. **Related Party Transactions**

Various board members both individual and through a family foundation donated \$104,075 to VECF.

**VIRGINIA EARLY CHILDHOOD FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Agency</u>	<u>Pass Through Agency</u>	<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Dept. of Health and Human Services	Virginia Dept. of Social Services	Child Care and Development Block Grant	93.713	\$ 1,262,777
U.S. Dept. of Health and Human Services	Virginia Dept. of Social Services	Early Childhood Advisory Council	93.708	<u>46,954</u>
Total				<u>\$ 1,309,731</u>

See accompanying notes to financial statements.

**VIRGINIA EARLY CHILDHOOD FOUNDATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011**

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of VECF and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule, VECF provided federal awards to subrecipients as follows:

Program Title	Federal CFDA #	Amount Provided to Subrecipients
Child Care and Development Block Grant	93.713	\$560,735

**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**

To the Board of Directors of
Virginia Early Childhood Foundation

We have audited the financial statements of Virginia Early Childhood Foundation (VECF) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 26, 2011. 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 VECF'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 VECF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, listed as item B-2. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

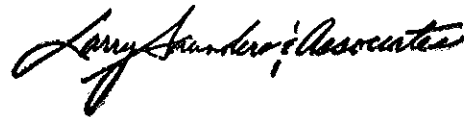
As part of obtaining reasonable assurance about whether VECF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item B-2.

Board of Directors
Page 2
September 26, 2011

VECF's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit VECF's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 26, 2011

A handwritten signature in cursive script that reads "Larry Anderson, Esq.".

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
Virginia Early Childhood Foundation

Compliance

We have audited Virginia Early Childhood Foundation's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Virginia Early Childhood Foundation's major federal programs for the year ended June 30, 2011. Virginia Early Childhood Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Virginia Early Childhood Foundation's management. Our responsibility is to express an opinion on Virginia Early Childhood Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, Issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Virginia Early Childhood Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Virginia Early Childhood Foundation's compliance with those requirements.

As described in item B-2 in the accompanying schedule of findings and questioned costs, VECF did not comply with requirements regarding subrecipient monitoring that are applicable to its ARRA Child Care and Development Block Grant. Compliance with such requirements is necessary, in our opinion, for VECF to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Virginia Early Childhood Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of Virginia Early Childhood Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Virginia Early Childhood Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Virginia Early Childhood Foundation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies

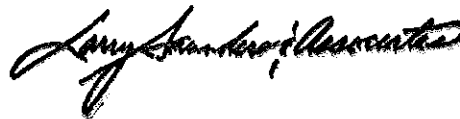
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item B-2 to be significant deficiencies.

Virginia Early Childhood Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Virginia Early Childhood Foundation's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 26, 2011



VIRGINIA EARLY CHILDHOOD FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

A. SUMMARY OF AUDIT RESULTS

1. Type of report issued on the basic financial statement: Unqualified opinions
2. Significant deficiencies in internal control were disclosed by the audit of the financial statement: Yes

Material weaknesses: No
3. Instance of noncompliance which is material to the basic financial statements: No
4. Significant deficiencies in internal control over major programs: Yes

Material weaknesses: No
5. The type of report issued on compliance for major programs: Qualified opinion
6. The program tested as a major program included: ARRA Child Care Development Block Grant CFDA 93.713.
7. The threshold for distinguishing Type A and B programs were \$300,000 for type A and \$100,000 for type B.
8. VECF was not determined to be a low risk auditee. This determination would be applicable to all American Recovery and Reinvestment Act recipients in general.

VIRGINIA EARLY CHILDHOOD FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

B. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

**Questioned
Costs**

1. **ARRA Child Care and Development Block Grant CFDA 93.713**
Period-Year ended June 30, 2011

Statement of Condition: We noted based upon our inquires with management that monthly bank reconciliations were not being prepared on a timely basis.

Criteria: It is VECF policy that bank reconciliation be performed within ten days of receipt of the bank statement.

Effect of Condition: This condition allows for the possibility of cash being misappropriated.

Recommendation: We recommend bank reconciliation be performed in accordance with VECF policies and procedures.

Corrective Action Plan: The VECF has established policies for the regular review of bank reconciliations and works to comply with our own requirements. Due to rapid growth and the management of funds with rigorous reporting requirements, there were times when finance staff time was maximized. This caused a couple slight delays to these reviews. We have corrected this situation with the addition of increased contract staff in our finance office that will accommodate our growing fiscal requirements.

2. **ARRA Child Care and Development Block Grant CFDA 93.713**
Period-Year ended June 30, 2011

Statement of Condition: Currently VECF does not have written sub-recipient monitoring procedures in place that verify subrecipient federal expenditures. Also federal award information (e.g. CFDA title and number award name, name of Federal agency) and applicable federal compliance requirements were not given to subrecipients.

Criteria: In order to assure compliance with Federal statues, VECF should have procedures in place to review sub-recipient financial records. Also all federal award information should be given to the subrecipients.

Effect of Condition: This condition allows for the possibility of VECF being in noncompliance with OMB A-133 compliance supplement requirement related to sub-recipient monitoring.

VIRGINIA EARLY CHILDHOOD FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

2. ARRA Child Care and Development Block Grant CFDA 93.713
Period-Year ended June 30, 2011 (continued)

Recommendation: We recommend site visit be performed at the sub-recipient to review financial and programmatic records and observe operations. Detailed documentation should maintain for all site visits that describe and identify procedures performed and findings noted.

Corrective action plan: This past fiscal year was the VECF's first experience with significant federal funding. We put additional staff in place to manage these funds in accordance with requirements presented to us by our grantor, the Virginia Department of Social Services. VDSS expressed confidence in our reporting mechanisms throughout the contract period. However, we agree that even greater oversight of sub-granted funds are in order. As an added control, the VECF will perform routine periodic testing on the finance ledgers provided by our sub-grantees. We recognize this as a significant opportunity to strengthen our financial procedures.

Total-Question Cost

\$ -

PRIOR-YEAR AUDIT FOLLOW-UP

There were no prior year audit findings.