



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF RUTHERFORD COUNTY PARTNERSHIP FOR CHILDREN, INC.

SPINDALE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**RUTHERFORD COUNTY PARTNERSHIP FOR CHILDREN, INC.**

**SPINDALE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2003**

**BOARD OF DIRECTORS**

**DR. VERNON HOYLE, BOARD CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**M. BARRY GOLD, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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

This report presents the results of our financial statement audit of the Rutherford County Partnership for Children, Inc. (Rutherford Partnership) for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Rutherford Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Rutherford Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Rutherford Partnership is one of these local partnerships. As such, the Rutherford Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

**1. Objective** – To express an opinion on the accompanying financial statements.

**Results** – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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

**Results** - The following condition represents a significant deficiency in noncompliance with laws, regulations, contracts, or grants.

**Finding**

Competitive Bidding

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Finding and Recommendation section of this report.

*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.



Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Rutherford County Partnership for Children, Inc.  
Spindale, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Rutherford County Partnership for Children, Inc. (Rutherford Partnership) as of June 30, 2003, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Rutherford 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 misstatements. 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.

As described in Note 1, the accompanying financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Rutherford County Partnership for Children, Inc. as of June 30, 2003, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2004 on our consideration of the Rutherford Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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Our audit was made for the purpose of forming an opinion on the basic financial statements of the Rutherford County 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 Schedules 1, 3, 4, and 5 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. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on Schedule 2.

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



Ralph Campbell, Jr.  
State Auditor

April 30, 2004

**Rutherford County Partnership for Children, Inc.****Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis****For the Year Ended June 30, 2003****Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$2,624)	\$ 865,898	\$ 12,000	\$ 0	\$ 877,898
Private Contributions		1,172		1,172
Interest and Investment Earnings		1,267		1,267
Sales Tax Refunds		212		212
<b>Total Receipts</b>	<b>865,898</b>	<b>14,651</b>		<b>880,549</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	426,566	1,800		428,366
Child Care and Education Affordability	43,746			43,746
Health and Safety	100,620			100,620
Family Support	162,208			162,208
Support:				
Management and General	122,372	16,250		138,622
Program Evaluation	8,778			8,778
Other:				
Sales Tax Paid		373		373
Refund of Prior Year Grant		1,344		1,344
<b>Total Expenditures</b>	<b>864,290</b>	<b>19,767</b>		<b>884,057</b>
<b>Excess of Receipts Over Expenditures</b>	<b>1,608</b>	<b>(5,116)</b>		<b>(3,508)</b>
<b>Net Assets at Beginning of Year</b>	<b>2,624</b>	<b>28,740</b>	<b>100</b>	<b>31,464</b>
<b>Net Assets at End of Year</b>	<b>\$ 4,232</b>	<b>\$ 23,624</b>	<b>\$ 100</b>	<b>\$ 27,956</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 2,253	\$ 23,624	\$ 100	\$ 25,978
Refunds Due From Contractors	1,979			1,979
	<b>\$ 4,232</b>	<b>\$ 23,624</b>	<b>\$ 100</b>	<b>\$ 27,956</b>
The accompanying notes to the financial statements are an integral part of this statement.				



**Rutherford County Partnership for Children, Inc.**  
**Statement of Functional Expenditures - Modified Cash Basis**  
**For the Year Ended June 30, 2003**

*Exhibit B*

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expenditures
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 426,566	6,302						420,264	
Child Care and Education Affordability	\$ 43,746							43,746	
Health and Safety	\$ 100,620							100,620	
Family Support	\$ 162,208							162,208	
	\$ 733,140	\$ 6,302	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 726,838	\$ 0
<b>Support:</b>									
Management and General	\$ 122,372	98,000	1,452	1,809	7,618	12,294	1,199		
Program Evaluation	\$ 8,778	8,778							
	\$ 131,150	\$ 106,778	\$ 1,452	\$ 1,809	\$ 7,618	\$ 12,294	\$ 1,199	\$ 0	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 864,290</b>	<b>\$ 113,080</b>	<b>\$ 1,452</b>	<b>\$ 1,809</b>	<b>\$ 7,618</b>	<b>\$ 12,294</b>	<b>\$ 1,199</b>	<b>\$ 726,838</b>	<b>\$ 0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 1,800	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,800	\$ 0
<b>Support:</b>									
Management and General	\$ 16,250	\$ 3,104	\$ 12,000	\$ 0	\$ 1,146	\$ 0	\$ 0	\$ 0	\$ 0
<b>Other:</b>									
Sales Tax Paid	\$ 373			373					
Refund of Prior Year Grant	\$ 1,344					1,344			
	\$ 1,717	\$ 0	\$ 0	\$ 373	\$ 0	\$ 1,344	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 19,767</b>	<b>\$ 3,104</b>	<b>\$ 12,000</b>	<b>\$ 373</b>	<b>\$ 1,146</b>	<b>\$ 1,344</b>	<b>\$ 0</b>	<b>\$ 1,800</b>	<b>\$ 0</b>

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

**RUTHERFORD COUNTY PARTNERSHIP FOR CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Rutherford County Partnership for Children, Inc. (Rutherford Partnership) is a legally separate nonprofit organization incorporated on January 30, 1997. The Rutherford Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Rutherford Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Basis of Presentation** - The accompanying financial statements present all funds for which the Rutherford Partnership's Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Receipts, Expenditures, and Net Assets as net assets released from restrictions.

The Rutherford Partnership did not have any permanently restricted net assets at June 30, 2003.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of cash on deposit with a private bank account and a money market account.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave and compensatory time, along with the related employer costs that would be due to employees upon termination is reported as a commitment in Note 9.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Rutherford Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

### NOTE 2 - DEPOSITS

All funds of the Rutherford Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Rutherford Partnership to a concentration of credit risk.

### NOTE 3 - FUNDING FROM GRANT AWARDS

**Smart Start Program** - The Rutherford Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with the North Carolina Partnership for Children, Inc. (NCPC) for the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Smart Start Program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the Rutherford Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Rutherford Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Rutherford Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Rutherford Partnership was awarded and has received \$868,522 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$4,232 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

The Partnership expects to receive continued funding through new Smart Start contracts with the State.

### **NOTE 4 - RELATED PARTY TRANSACTIONS**

- A. Service Provider Contracts with Board Member Organizations** - The board members of the Rutherford Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Rutherford Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.
- B. Other Related Parties** - The Rutherford Partnership entered into a transaction for office space with the United Way of Rutherford County, Inc., which is associated with a board member. The total amount paid for the current year was \$8,550.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

#### A. Program Functions

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, salary supplements, or health insurance benefits for child care providers.

**Child Care and Education Affordability** - Used to account for service activities including Head Start classrooms or part day care programs.

**Health and Safety** - Used to account for service activities including comprehensive screenings or comprehensive health support.

**Family Support** - Used to account for service activities including ongoing parenting education, general family support, family literacy projects, or transportation services.

#### B. Support Functions

**Management and General** - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

**Program Evaluation** - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

#### C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

**Salaries and Benefits** - Allocated based on employee time reports.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 6 - LEASE OBLIGATIONS

**Operating Lease Obligations** - Future minimum lease payments under noncancelable operating leases consisted of \$6,413 for fiscal year 2004 at June 30, 2003. Rental expense for all operating leases during the year was \$8,885.

### NOTE 7 - PENSION PLAN

**IRC Section 403(b) Plan** – The Partnership participates in the United Way of Rutherford County, Inc.'s (United Way) Defined Contribution Plan. All permanent employees who are at least half time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). Each employee of the Rutherford Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Rutherford Partnership contributed 15% of gross wages for the year ended June 30, 2003. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. Minimal administrative costs to the United Way are incurred by the Rutherford Partnership.

For the year ended June 30, 2003, the Rutherford Partnership contributed \$12,100 for retirement benefits.

### NOTE 8 - RISK MANAGEMENT

The Rutherford Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The Rutherford Partnership manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Workers Compensation - Employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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Management believes such coverage is sufficient to preclude any significant losses to the Rutherford Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

**Compensated Absences** – As a result of the Rutherford Partnership’s use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2003, is \$5,750. No funds or reservation of net assets has been made for this commitment.

### NOTE 10 - RESTRICTIONS ON NET ASSETS

**Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2003 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Family Support Programs	<u>\$ 100</u>

***Rutherford County Partnership for Children, Inc.***  
***Schedule of Contract and Grant Expenditures - Modified Cash Basis***  
***For the Year Ended June 30, 2003***

***Schedule 1***

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Cleveland County Health Department	40,146			
Family Resources of Rutherford County, Inc. *	301,072	(1,719)	1,800	
Judy's Child Care Center, Inc.	22,310			
Kids R' Us	6,022			
Kid's World Too, Inc.	6,720			
Liberty Baptist Church Day Care Center *	6,647			
Little Red School	6,850			
Rutherford County Schools *	193,576			
Rutherford Hospital, Inc. *	51,786			
Rutherford Life Services	11,400			
The Learning Tree, Inc.	14,430			
United Way of Rutherford County *	8,948	(260)		
Various Day Care Providers	51,458			
	<b>\$ 721,365</b>	<b>\$ (1,979)</b>	<b>\$ 1,800</b>	<b>\$ 0</b>
<b>Individuals:</b>				
Insurance Benefits Reimbursements	<b>\$ 7,452</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
	<b>\$ 728,817</b>	<b>\$ (1,979)</b>	<b>\$ 1,800</b>	<b>\$ 0</b>

\* These organizations are represented on the Partnership's Board as described in Note 4A - Service Provider Contracts with Board Member Organizations.



***Rutherford County Partnership for Children, Inc.  
Schedule of State Level Service Provider Contracts  
For the Year Ended June 30, 2003***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Rutherford County Department of Social Services	* <b>\$ 697,890</b>
<p>* These organizations are represented on the Partnership's Board as described in Note 4A - Service Provider Contracts with Board Member Organizations.</p>	
<p>The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.</p>	

**Rutherford County Partnership for Children, Inc.**  
**Schedule of State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2003**

**Schedule 3**

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
<b>State Awards:</b>			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	1-12-3-06-001	\$ (2,624)	\$ 0
Early Childhood Initiatives Program (Current Year)	*	868,522	864,290
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
<b>Total State Awards</b>		<b>\$ 877,898</b>	<b>\$ 876,290</b>
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

<i>Rutherford County Partnership for Children, Inc.</i>			
<i>Schedule of Property and Equipment - Modified Cash Basis</i>			
<i>For the Year Ended June 30, 2003</i>			<i>Schedule 4</i>
	Furniture and Noncomputer Equipment	\$	12,086
	Computer Equipment/Printers		12,648
	<b>Total Property and Equipment</b>	<b>\$</b>	<b>24,734</b>
<p>Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.</p>			

***Rutherford County Partnership for Children, Inc.***  
***Schedule of Qualifying Match (Non-GAAP)***  
***For the Year Ended June 30, 2003***

***Schedule 5***

<b><i>Match Provided at the Partnership Level:</i></b>			
Cash		\$	1,152
In-Kind Goods and Services			5,124
			<u>6,276</u>
		\$	<u>6,276</u>
<b><i>Match Provided at the Contractor Level:</i></b>			
Cash		\$	165,913
In-Kind Goods and Services			10,900
			<u>176,813</u>
		\$	<u>176,813</u>
Note:	This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2001-424, Section 21.72(c). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.		

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

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Board of Directors  
Rutherford County Partnership for Children, Inc.  
Spindale, North Carolina

We have audited the financial statements of the Rutherford County Partnership for Children, Inc. (Rutherford Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated April 30, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Rutherford Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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, which are reported in the Audit Finding and Recommendation section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

**Finding**

Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rutherford Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over

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

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financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



Ralph Campbell, Jr.  
State Auditor

April 30, 2004

## AUDIT FINDING AND RECOMMENDATION

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### **Matter Related to Financial Reporting**

The following finding and recommendation was identified during the current audit and describes a condition that represents noncompliance with laws, regulations, contracts, or grants.

#### COMPETITIVE BIDDING

We noted instances where documentation was not available to support compliance with the competitive bidding requirements for the purchase of goods and services.

*Recommendation:* We recommend that the Rutherford Partnership maintain documentation to support compliance with the legislatively mandated bid requirements.

*Partnership's Response:* The Partnership agrees that documentation was not available at the time of the audit in the form of 3 years budgets for projects bided for FY2000 – 2003. In our bidding process for FY2004 – 2006 the Partnership has complied fully with documentation requirements. The staff of the Partnership will continue to assure that bidding requirements are followed fully and that all documentation supports compliance with competitive bidding.



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## **DISTRIBUTION OF AUDIT REPORT**

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors
	The North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director
	The North Carolina Partnership for Children, Inc.

### **LEGISLATIVE BRANCH**

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Senator R. C. Soles, Jr.	Representative Wilma M. Sherrill
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### **Other Legislative Officials**

Mr. James D. Johnson	Director, Fiscal Research Division
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July 22, 2004

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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