

**DOUGLAS A. HOLLOWELL P.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION

1880 WEST CITY DRIVE  
P.O. BOX 1387  
ELIZABETH CITY, NORTH CAROLINA 27906  
TELEPHONE: (252) 338-8021  
1-888-825-8059  
FAX (252) 338-4148

102 WEST EDEN STREET  
P.O. BOX 567  
EDENTON, NORTH CAROLINA 27932  
TELEPHONE: (252) 482-8461  
FAX (252) 482-4921

DOUGLAS A. HOLLOWELL, C.P.A.  
DONNA HOLLOWELL, WINBORNE, C.P.A.

September 28, 2011

To Management and the Members of the Board  
Gates County Board of Education  
Gatesville, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gates County for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 29, 2010. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Gates County Board of Education are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not

**MEMBERS OF:**

THE AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

THE VIRGINIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

THE NORTH CAROLINA  
ASSOCIATION OF CERTIFIED  
PUBLIC ACCOUNTANTS

resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated September 28, 2011.

***Management Consultations with Other Independent Accountants***

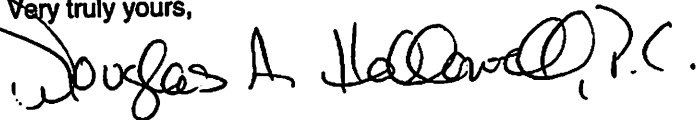
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the members of the Board and management of Gates County Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Douglas A. Hollowell, P.C.". The signature is fluid and cursive, with a large loop at the beginning and a distinct "P.C." at the end.

Douglas A. Hollowell, P.C.

**GATES COUNTY  
BOARD OF EDUCATION**  
Gatesville, North Carolina

**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2011**

# **GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**

## **List of Principal Officials June 30, 2011**

### **BOARD OF EDUCATION**

G. Douglas Lilley, Chairman	Dale W. Saunders, Sr. Vice-Chairman	
Glendale P. Boone	Ray Felton	Leslie S. Byrum

### **OFFICE OF THE SUPERINTENDENT**

Dr. Zenobia W. Smallwood Superintendent	
James E. Norfleet Assistant Superintendent	Rube Blanchard Finance Officer

### **INDIVIDUAL SCHOOLS**

#### **Principals**

C. Don Gregory Buckland Elementary School	Sallie Ryan Gateville Elementary School
Susan Ward T. S. Cooper Elementary School	Monique Hicks Central Middle School
Tammi Ward Gates County High School	

# **GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**

## **Table of Contents**

**June 30, 2011**

	<u>Page</u>	<u>Exhibit</u>
<b>FINANCIAL SECTION</b>		
<b>Independent Auditors' Report</b>	1-2	
<b>Management's Discussion and Analysis</b>	3-8	
<b>Basic Financial Statements:</b>		
<b>Government-wide Financial Statements:</b>		
Statement of Net Assets	9	1
Statement of Activities	10	2
<b>Fund Financial Statements:</b>		
Balance Sheet - Governmental Funds	11	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	11	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12-13	4
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Major Special Revenue Funds	15-17	6
Statement of Net Assets - Proprietary Funds	18	7
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	19	8
Statement of Cash Flows - Proprietary Funds	20-21	9
<b>Notes to Financial Statements</b>	22-35	

# **GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**

## **Table of Contents**

**June 30, 2011**

	<u>Page</u>	<u>Exhibit</u>
<b>Combining and Individual Fund Statements and Schedules:</b>		
General Fund:		
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual	36-37	
Federal Grants Fund:		
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	38	
Capital Outlay Fund:		
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	39	
<b>Enterprise Funds:</b>		
Food Service Fund:		
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	40	
Child Care Fund:		
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	41	
<b>COMPLIANCE SECTION</b>		
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	A-1	
Report On Compliance With Requirements Applicable To Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 and the State Single Audit Implementation Act	A-3	
Report On Compliance With Requirements Applicable To Each Major State Program And Internal Control Over Compliance In Accordance With Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act	A-5	
Schedule of Findings and Questioned Costs	A-7	
Corrective Action Plan	A-9	
Summary Schedule of Prior Audit Findings	A-10	
Schedule of Expenditures of Federal and State Awards	A-11	

# DOUGLAS A. HOLLOWELL P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION

1880 WEST CITY DRIVE  
P.O. BOX 1387  
ELIZABETH CITY, NORTH CAROLINA 27906  
TELEPHONE: (252) 338-8021  
1-888-825-8059  
FAX (252) 338-4148

102 WEST EDEN STREET  
P.O. BOX 567  
EDENTON, NORTH CAROLINA 27932  
TELEPHONE: (252) 482-8461  
FAX (252) 482-4921

DOUGLAS A. HOLLOWELL, C.P.A.  
DONNA HOLLOWELL, WINBORNE, C.P.A.

## INDEPENDENT AUDITORS' REPORT

To the Members of the Board  
Gates County Board of Education  
Gatesville, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gates County Board of Education, as of and for the year then ended June 30, 2011, which collectively comprise the Gates County Board of Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Gates County Board of Education's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Gates County Board of Education as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, State Public School Fund, and Federal Grants Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2011 on our consideration of Gates County Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

### MEMBERS OF:

THE AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

THE VIRGINIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

THE NORTH CAROLINA  
ASSOCIATION OF CERTIFIED  
PUBLIC ACCOUNTANTS

Management's Discussion and Analysis is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Gates County Board of Education. The combining and individual nonmajor fund financial statements, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and the accompanying schedule of expenditures of federal and State awards 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.



Douglas A. Hollowell, P.C.  
September 28, 2011



## **Management's Discussion and Analysis**

This section of the Gates County Board of Education's financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2011. This information should be read in conjunction with the audited financial statements included in this report.

### ***Financial Highlights***

- Gates County Public Schools has one of the lowest income tax bases per pupil in North Carolina.
- The Public School Forum, a nonprofit organization dedicated to analyzing education funding in North Carolina, has called Gates County one of the top counties in the state in its effort to fund education with local dollars.
- Consequently, the county property tax rate ranks 50th out of 100 counties (this means that the local rate to support education is comparable to the average tax rates of other counties in the state).

### ***Overview of the Financial Statements***

The audited financial statements of the Gates County Board of Education consist of four components. They are as follows:

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Required supplemental section that presents combining and budgetary statements for non-major governmental funds and budgetary statements for enterprise funds

The **Basic Financial Statements** include two types of statements that present different views of the Board's finances. The first is the government-wide statements. The government-wide statements are presented on the full accrual basis of accounting and include the statement of net assets and the statement of activities. The statement of Net Assets includes all of the Board's assets and liabilities. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This statement provides a summary of the Board's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement. The Statement of Activities summarizes the Board's revenues and expenses for the current year. A net (expense) revenue format is used to indicate to what extent each function is self-sufficient.

The second set of statements included in the basic financial statements is the **Fund Financial Statements**, which are presented for the Board's governmental fund and proprietary fund. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The proprietary fund is presented on the full accrual basis of accounting. The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government wide statements, reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit and the fund financial statements provide information on the financial resources of each of the Board's major funds.

## **Government-wide Statements**

The government-wide statements report information about the unit as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Board's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the board's net assets and how they have changed. Net assets are the difference between the board's assets and liabilities this method is one way to measure the unit's financial health or position.

- ↓ Over time, increases or decreases in the Board's net assets are an indicator of whether its financial position is improving or deteriorating.
- ↓ To assess the Board's overall health, you need to consider additional non-financial factors such as changes in the County's property tax base and the physical condition of its school buildings and other tangible assets.

The unit's activities are divided into two categories in the government-wide statements:

- ↓ **Governmental activities:** Most of the Board's basic services are included here, such as regular and special education, transportation, and administration. County funding and state and federal aid finance most of these activities.
- ↓ **Business-type activities:** The Board charges fees to help it cover the costs of certain services it provides. School food service is included here.

The government-wide statements are shown as Exhibits 1 and 2 of this report.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the Board's funds, focusing on its most significant or "major" funds-not the unit as a whole. Funds are accounting devices the Board uses to keep track of specific sources of funding and spending on particular programs.

- ↓ Some funds are required by State law, such as the State Public School Fund
- ↓ The Board has established other funds to control and manage money for a particular purpose or to show that it is properly using certain revenues, such as in the Federal Grants fund.

Gates County Board of Education has two types of funds:

**Governmental funds:** Most of the Board's basic services are included in the governmental funds, which generally focus on two things-how cash and other assets can readily be converted to cash flow in and out, and the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the coming year to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements, in the form of reconciliation, explains the relationship (or differences) between the government-side and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, and the Federal Grants Fund.

The governmental fund statements are shown as Exhibits 3, 4 and 5 of this report.

**Proprietary funds:** Services for which the Board charges a fee are generally reported in the proprietary funds. The proprietary fund statements are reported on the same full accrual basis of accounting as the government-wide statements. Gates County Board of Education has one proprietary fund – the School Food Service Fund.

The proprietary fund statements are shown as Exhibits 6, 7, and 8 of this report.

#### **Financial Analysis of the Schools as a Whole**

Net assets are an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$14,461,249 as of June 30, 2011. The largest component of net assets is invested in capital assets, net of related debt, of \$13,772,528. It comprises 95% of the total net assets.

Following is a summary of the Statement of Net Assets:

Table 1						
Condensed Statement of Net Assets						
	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 1,761,515	\$ 1,657,951	\$ 305,673	\$ 233,689	\$ 2,045,232	\$ 1,891,640
Capital assets	13,789,406	14,207,142	58,867	55,939	13,848,273	14,263,081
<b>Total assets</b>	<b>15,550,921</b>	<b>15,865,093</b>	<b>364,540</b>	<b>289,628</b>	<b>15,893,505</b>	<b>16,154,721</b>
Current liabilities	1,392,102	1,377,119	500	19,347	1,392,602	1,396,466
Long-term liabilities	37,874	118,008	23,736	1,175	61,610	119,183
<b>Total liabilities</b>	<b>1,429,976</b>	<b>1,495,127</b>	<b>24,236</b>	<b>20,522</b>	<b>1,454,212</b>	<b>1,515,649</b>
Invested in capital assets, net of related debt	13,713,661	14,055,649	58,867	55,939	13,772,528	14,111,588
Restricted net assets	243,458	140,916	-	-	243,458	140,916
Unrestricted net assets	163,826	173,401	281,437	213,167	445,263	386,568
<b>Total net assets</b>	<b>\$ 14,120,945</b>	<b>\$ 14,369,966</b>	<b>\$ 340,304</b>	<b>\$ 269,106</b>	<b>\$ 14,461,249</b>	<b>\$ 14,639,072</b>

Note that net assets decreased during the year. The decrease in net assets of \$177,823 is due largely to decreases in capital assets. Unrestricted net assets increased by \$58,695 primarily due to the increase in the current assets of both the governmental and business type activities. Also, note that the School Board carries capital assets for which Gates County carries the offsetting debt. Restricted net assets represent constraints on resources that are otherwise externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments, or imposed by law through state statute.

The following table shows the revenues and expenses for the Board for the current fiscal year.

Table 2						
Condensed Revenues, expenses, and changes in net assets						
	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 287,704	\$ 270,055	\$ 519,883	\$ 536,586	\$ 807,587	\$ 806,641
Operating grants and contributions	13,376,666	13,246,297	624,425	601,196	14,001,091	13,847,493
Capital grants and contributions	-	10,745	-	-	-	10,745
<b>General revenues:</b>						
Other revenues	5,669,778	7,731,715	91	62	5,669,869	7,731,777
<b>Total revenues</b>	<b>19,334,148</b>	<b>21,258,812</b>	<b>1,144,399</b>	<b>1,137,844</b>	<b>20,478,547</b>	<b>22,396,656</b>
<b>Expenses:</b>						
<b>Governmental activities:</b>						
Instructional services	14,578,244	14,493,697	-	-	14,578,244	14,493,697
System-wide support services	4,277,062	3,980,184	-	-	4,277,062	3,980,184
Ancillary services	211,124	206,029	-	-	211,124	206,029
Non-programmed charges	(3,628)	(3,356)	-	-	(3,628)	(3,356)
Depreciation	469,161	383,346	-	-	469,161	383,346
<b>Business-type activities:</b>						
Food service	-	-	939,175	958,721	939,175	958,721
Child care	-	-	185,232	190,050	185,232	190,050
<b>Total expenses</b>	<b>19,531,963</b>	<b>19,059,900</b>	<b>1,124,407</b>	<b>1,148,771</b>	<b>20,656,370</b>	<b>20,208,671</b>
<b>Transfers In (Out)</b>	<b>(51,206)</b>	<b>(47,476)</b>	<b>51,206</b>	<b>47,476</b>		
<b>Increase (decrease) in net assets</b>	<b>(249,021)</b>	<b>2,151,436</b>	<b>19,992</b>	<b>36,549</b>	<b>(177,823)</b>	<b>2,187,985</b>
<b>Beginning net assets</b>	<b>14,369,966</b>	<b>12,218,530</b>	<b>269,106</b>	<b>232,557</b>	<b>14,639,072</b>	<b>12,451,087</b>
<b>Ending net assets</b>	<b>14,120,945</b>	<b>14,369,966</b>	<b>340,304</b>	<b>269,106</b>	<b>14,461,249</b>	<b>14,639,072</b>

Total governmental activities generated revenues of \$19,334,148 while expenses in this category totaled \$19,531,963. Comparatively, revenues were \$21.3 million and expenses totaled \$19.1 million for the year ended June 30, 2010. The decrease in net assets stands at \$249,021 compared to an increase of \$2,151,436 for year ended June 30, 2010. Instructional expenses comprised 75% of total governmental-type expenses while system-wide support services made up 22% of those expenses for 2011. County funding comprised 15% of total governmental revenue while unrestricted State funding added another 16% for 2011. In 2010, county funding was 23% and unrestricted State funding added 12%. Much of the remaining 69% of total governmental revenue for 2011 consists of restricted State and Federal money. This revenue represented 65% of total revenue in 2010. Business-type activities generated revenue of \$1,144,399 and had expenses of \$1,124,407. Net assets increased in the business-type activities by \$71,198.

## Financial Analysis of the Board's Funds

**Governmental Funds:** The focus of Gates County Board of Education's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Board's financing requirements.

The Board's governmental funds reported a combined fund balance of \$1,297,746 an increase of \$62,026 over last year. This was due primarily to the General Fund and the Individual School Fund.

**Proprietary Funds:** The Board's business-type fund performed well in the past year. In a year of escalating food prices, the business type funds increased a total of \$71,198. This increase was due primarily to cutting costs associated with salaries and purchases in the Child Nutrition Fund, and an increase in the revenue associated with the Child Care Fund.

## General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for changes in revenue expectations and to increase appropriations in light of the increased revenue estimates and new programs or grants received. Decreases in estimated revenues and corresponding decreases in appropriations totaled \$14,603 in the General Fund. The reason for this decrease in the initial budget to the final budget is due to several program budget cuts that were unknown prior to the approval of the initial budget. These program budget cuts were added after this initial budget was approved via budget amendments in the new fiscal year.

## Capital Assets

Capital assets, net of depreciation decreased by \$414,808 from the previous year. This was largely due to an increase of depreciation recorded and the reduction of vehicles in the current year. The following is a summary of the capital assets, net of depreciation at year-end. See the table below.

Table 3 Summary of capital assets						
	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 53,670	\$ 53,670	\$ -	\$ -	\$ 53,670	\$ 53,670
Construction in progress	20,000	-	-	-	20,000	-
Buildings and improvements	12,710,453	13,104,752	-	-	12,710,453	13,104,752
Equipment, furniture, and library books	229,895	177,664	58,867	55,939	288,762	233,603
Vehicles	775,388	871,056	-	-	775,388	871,056
Total	\$ 13,789,406	\$ 14,207,142	\$ 58,867	\$ 55,939	\$ 13,848,273	\$ 14,263,081

## Debt Outstanding

During the year the Board's outstanding debt decreased by \$75,746 due to the use of installment financing to pay for school buses. The Board is limited by North Carolina General Statutes with regards to the types of debt it can issue and for what purpose that debt can be used. The County holds all debt issued for school capital construction. At June 30, 2011, the only debt was issued by the State for replacement school buses, on a three year capital lease. The lease ends in 2011. The state provides the resources in the form of revenue to make the payments, however, the lease agreement is a liability of the school board who owns the vehicles.

### **Economic Factors**

The Board anticipates no increase in enrollment over the next several years and may lose some state funding as a result of fluctuations in Elementary versus Secondary student numbers. County funding is a major source of income for the Board; therefore the County's economic outlook directly affects that of the schools. The following factor has positively affected the economic outlook of Gates County.

↓ The County has an unemployment rate of 6.8%, relatively low compared to the state average of 9.1%.

### **Requests for Information**

This report is intended to provide a summary of the financial condition of Gates County Board of Education. Questions or requests for additional information should be addressed to:

Rube F. Blanchard, Finance Officer  
Gates County Board of Education  
205 Main Street  
P O Box 125  
Gatesville, NC 27938

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**



**Gates County Board of Education, North Carolina**  
**Statement of Net Assets**  
**June 30, 2011**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,444,883	\$ 231,286	\$ 1,676,169
Accounts receivable	1,375	31,842	33,217
Due from other governments	304,279	14,113	318,392
Inventories	-	39,410	39,410
Internal balances	10,978	(10,978)	-
Capital assets			
Land, improvements, and construction in progress	73,670	-	73,670
Other capital assets, net of depreciation	13,715,736	58,867	13,774,603
Total capital assets	13,789,406	58,867	13,848,273
Total assets	15,550,921	364,540	15,915,461
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	155,257	-	155,257
Accrued salaries and wages payable	308,513	-	308,513
Customer deposits	-	500	500
Long term liabilities:			
Due within one year	928,332	23,736	952,068
Due in more than one year	37,874	-	37,874
Total liabilities	1,429,976	24,236	1,454,212
<b>NET ASSETS</b>			
Invested on capital assets, net of related debt	13,713,661	58,867	13,772,528
Restricted for:			
Individual schools	177,386	-	177,386
School capital outlay	66,072	-	66,072
Unrestricted (deficit)	163,826	281,437	445,263
Total net assets	\$ 14,120,945	\$ 340,304	\$ 14,461,249

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

**Gates County Board of Education, North Carolina**  
**Statement of Activities**  
**For the Year Ended June 30, 2011**

**Exhibit 2**

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
<b>Governmental Activities:</b>							
Instructional services							
Regular instructional	\$ 8,613,536	\$ 20,741	\$ 6,892,740	\$ -	\$ (1,700,055)	\$ -	\$ (1,700,055)
Special populations	1,618,725	-	1,555,690	-	(63,035)	-	(63,035)
Alternative programs	1,350,395	-	1,191,314	-	(159,081)	-	(159,081)
School leadership	1,029,533	-	899,203	-	(130,330)	-	(130,330)
Co-curricular	109,668	-	-	-	(109,668)	-	(109,668)
School-based support	1,856,387	262,258	1,041,789	-	(552,340)	-	(552,340)
System-wide support services							
Support and development	100,536	-	76,150	-	(24,386)	-	(24,386)
Special population support and development	132,504	-	124,105	-	(8,399)	-	(8,399)
Technology support	1,982	-	1,982	-	-	-	-
Operational support	2,962,626	4,705	1,028,510	-	(1,929,411)	-	(1,929,411)
Financial and human resource	446,102	-	196,292	-	(249,810)	-	(249,810)
Accountability	90,934	-	2,477	-	(88,457)	-	(88,457)
System-wide pupil relations	126,646	-	-	-	(126,646)	-	(126,646)
Policy, leadership and public relations	415,732	-	260,057	-	(155,675)	-	(155,675)
Ancillary services	211,124	-	54,103	-	(157,021)	-	(157,021)
Non-programmed charges	(3,628)	-	52,254	-	55,882	-	55,882
Unallocated depreciation expense	469,161	-	-	-	(469,161)	-	(469,161)
<b>Total governmental activities</b>	<b>19,531,963</b>	<b>287,704</b>	<b>13,376,666</b>	<b>-</b>	<b>(5,867,593)</b>	<b>-</b>	<b>(5,867,593)</b>
<b>Business-type activities:</b>							
School food service	939,175	324,370	624,425	-	-	9,620	9,620
Child care	185,232	195,513	-	-	-	10,281	10,281
<b>Total business-type activities</b>	<b>1,124,407</b>	<b>519,883</b>	<b>624,425</b>	<b>-</b>	<b>-</b>	<b>19,901</b>	<b>19,901</b>
<b>Total primary government</b>	<b>\$ 20,656,370</b>	<b>\$ 807,587</b>	<b>\$ 14,001,091</b>	<b>\$ -</b>	<b>(5,867,593)</b>	<b>19,901</b>	<b>(5,847,692)</b>
<b>General revenues:</b>							
Unrestricted county appropriations - operating					2,762,079	-	2,762,079
Unrestricted county appropriations - capital					144,850	-	144,850
Unrestricted State appropriations - operating					2,378,609	-	2,378,609
Unrestricted State appropriations - capital					75,746	-	75,746
Unrestricted Federal grants					46,390	-	46,390
Investment earnings, unrestricted					1,961	91	2,052
Miscellaneous, unrestricted					260,143	-	260,143
<b>Transfers</b>					<b>(51,206)</b>	<b>51,206</b>	<b>-</b>
					<b>5,618,572</b>	<b>51,297</b>	<b>5,669,869</b>
					<b>(249,021)</b>	<b>71,198</b>	<b>(177,823)</b>
					<b>14,369,966</b>	<b>269,106</b>	<b>14,639,072</b>
					<b>\$ 14,120,945</b>	<b>\$ 340,304</b>	<b>\$ 14,461,249</b>

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

## **FUND FINANCIAL STATEMENTS**

**Gates County Board of Education. North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

**Exhibit 3**

	Major Funds				Nonmajor Fund	Total Governmental Funds
	General	State Public School	Federal Grants	Individual Schools	Capital Outlay	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,201,425	\$ -	\$ -	\$ 177,386	\$ 66,072	\$ 1,444,883
Accounts receivable	1,375	-	-	-	-	1,375
Due from other funds	10,978	-	-	-	-	10,978
Due from other governments	-	276,722	27,557	-	-	304,279
Total assets	<u>\$ 1,213,778</u>	<u>\$ 276,722</u>	<u>\$ 27,557</u>	<u>\$ 177,386</u>	<u>\$ 66,072</u>	<u>\$ 1,761,515</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 155,257	\$ -	\$ -	\$ -	\$ -	\$ 155,257
Accrued salaries and wages payable	4,233	276,722	27,557	-	-	308,512
Total liabilities	<u>159,490</u>	<u>276,722</u>	<u>27,557</u>	<u>-</u>	<u>-</u>	<u>463,769</u>
Fund balances:						
Restricted:						
Stabilization by State Statute	12,353	-	-	-	-	12,353
School Capital Outlay	-	-	-	177,386	-	177,386
Individual Schools	-	-	-	-	66,072	66,072
Assigned:						
Subsequent years expenditures	144,978	-	-	-	-	144,978
Unassigned:	896,957	-	-	-	-	896,957
Total fund balances	<u>1,054,288</u>	<u>-</u>	<u>-</u>	<u>177,386</u>	<u>66,072</u>	<u>1,297,746</u>
Total liabilities and fund balances	<u>\$ 1,213,778</u>	<u>\$ 276,722</u>	<u>\$ 27,557</u>	<u>\$ 177,386</u>	<u>\$ 66,072</u>	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds.

13,789,406

Some liabilities, including bonds payable and accrued interest, are not due in the current period and therefore are not reported in the funds (Note 4).

(966,207)  
\$ 14,120,945

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

**Gates County Board of Education, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2011**

**Exhibit 4**

	Major Funds				Nonmajor	Total Governmental Fund
	General	State Public School	Federal Grants	Individual Schools	Capital Outlay	
<b>REVENUES</b>						
State of North Carolina	\$ 349,705	\$ 13,049,654	\$ -	\$ -	\$ 75,746	13,475,105
Gates County	2,762,079	-	-	-	144,850	2,906,929
U. S. Government	46,390	-	2,111,530	-	-	2,157,920
Other	458,436	-	-	426,278	17,182	901,896
Total revenues	<u>3,616,610</u>	<u>13,049,654</u>	<u>2,111,530</u>	<u>426,278</u>	<u>237,778</u>	<u>19,441,850</u>
<b>EXPENDITURES</b>						
Current:						
Instructional services						
Regular instructional	127,876	8,327,763	223,952	-	-	8,679,591
Special populations	12,178	1,055,442	559,252	-	-	1,626,872
Alternative programs	359,163	427,146	575,959	-	-	1,362,268
School leadership	102,986	654,382	289,088	-	-	1,046,456
Co-curriculum	109,668	-	-	-	-	109,668
School-based support	206,260	1,024,524	222,044	397,907	-	1,850,735
System-wide support services:						
Support and development	23,305	76,561	-	-	-	99,866
Special population support and development	1,004	122,986	1,119	-	-	125,109
Technological support	-	1,982	-	-	-	1,982
Operational support	1,913,091	808,999	137,427	-	-	2,859,517
Financial and human resources	246,196	147,797	48,906	-	-	442,899
Accountability	1,415	89,030	-	-	-	90,445
System-wide pupil support	123,142	-	-	-	-	123,142
Policy, leadership and public relations	150,979	259,718	750	-	-	411,447
Ancillary services	205,756	2,897	-	-	-	208,653
Non-programmed charges	154	(779)	53,033	-	-	52,408
Capital outlay:						
Real property and buildings	-	-	-	-	161,814	161,814
Debt service:						
Principal	-	-	-	-	75,746	75,746
Total expenditures	<u>3,583,173</u>	<u>12,998,448</u>	<u>2,111,530</u>	<u>397,907</u>	<u>237,560</u>	<u>19,328,618</u>
Excess (deficiency) of over expenditures	33,437	51,206	-	28,371	218	113,232

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

**Gates County Board of Education, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2011**

**Exhibit 4**

	Major Funds				Nonmajor	Total Governmental Fund
	General	State Public School	Federal Grants	Individual Schools	Capital Outlay	
Other financing sources (uses):						
Transfer (to) from other funds	-	(51,206)	-	-	-	(51,206)
Total other financing sources (uses)	-	(51,206)	-	-	-	(51,206)
Net change in fund balance	33,437	-	-	28,371	218	62,026
Fund balances-beginning	1,020,851	-	-	149,015	65,854	1,235,720
Fund balances-ending	<u>\$ 1,054,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 177,386</u>	<u>\$ 66,072</u>	<u>1,297,746</u>

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

**Gates County Board of Education, North Carolina  
Statement of Revenues, Expenses, and Changes in Fund  
Governmental Funds  
For the Year Ended June 30, 2011**

Amounts reported for governmental activities in the statement of activities  
different because:

Net changes in fund balances - total governmental funds	\$	62,026
---	----	--------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

(417,736)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

75,746

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences

30,943

Total changes in net assets of governmental activities

\$ (249,021)

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

**Gates County Board of Education, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2011**

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
State of North Carolina	\$ 464,470	\$ 358,679	\$ 349,705	\$ (8,974)
Gates County	2,790,477	2,762,079	2,762,079	-
U. S. Government	20,000	25,000	46,390	21,390
Other	322,097	436,683	458,436	21,753
Total revenues	<u>3,597,044</u>	<u>3,582,441</u>	<u>3,616,610</u>	<u>34,169</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Instructional services				
Regular instructional	84,163	184,426	127,876	56,550
Special populations	26,723	23,029	12,178	10,851
Alternative programs	377,593	371,987	359,163	12,824
School leadership	25,129	102,986	102,986	-
Co-curricular	122,465	109,668	109,668	-
School-based support	138,066	207,444	206,260	1,184
System-wide support services:				
Support and development	89,083	23,305	23,305	-
Special populations support	2,689	1,004	1,004	-
Operational support	1,891,676	1,938,773	1,913,091	25,682
Financial and human resources	304,385	246,209	246,196	13
Accountability	16,934	1,415	1,415	-
System-wide pupil support	129,209	123,142	123,142	-
Policy, leadership and public relation	166,978	150,989	150,979	10
Ancillary services	227,228	216,632	205,756	10,876
Non-programmed charges	-	156	154	2
Total expenditures	<u>3,602,321</u>	<u>3,701,165</u>	<u>3,583,173</u>	<u>117,992</u>
Revenues over (under) expenditures	<u>(5,277)</u>	<u>(118,724)</u>	<u>33,437</u>	<u>152,161</u>
Other financing sources (uses):				
Fund balance appropriated	<u>5,277</u>	<u>118,724</u>	<u>-</u>	<u>(118,724)</u>
Total other financing sources (uses)	<u>5,277</u>	<u>118,724</u>	<u>-</u>	<u>(118,724)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>33,437</u>	<u>\$ 33,437</u>
Fund balances, beginning of year			<u>1,020,851</u>	
Fund balances, end of year			<u>\$ 1,054,288</u>	

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



**Gates County Board of Education, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Balance - Budget and Actual**  
**Annually Budgeted Major Special Revenue Fund**  
**For the Year Ended June 30, 2011**

	<b>State Public School Fund</b>			<b>Variance with Final Budget- Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues:</b>				
State of North Carolina	\$ 13,182,895	\$ 13,169,802	\$ 13,049,654	\$ (120,148)
Total revenues	<u>13,182,895</u>	<u>13,169,802</u>	<u>13,049,654</u>	<u>(120,148)</u>
<b>Expenditures:</b>				
Current:				
Instructional services				
Regular instructional	8,434,215	8,414,334	8,327,763	86,571
Special populations	1,018,215	1,055,938	1,055,442	496
Alternative programs	337,711	427,214	427,146	68
School leadership	640,125	687,290	654,382	32,908
School-based support	1,011,940	1,024,524	1,024,524	-
System-wide support services:				
Support and development	78,783	76,665	76,561	104
Special populations support	121,597	122,986	122,986	-
Technical support	-	1,982	1,982	-
Operational support	668,601	808,999	808,999	-
Financial and human resources	151,012	147,797	147,797	-
Accountability	70,426	89,030	89,030	-
Policy, leadership and public relations	249,093	259,718	259,718	-
Ancillary services	-	2,898	2,897	1
Non-programmed charges	<u>349,657</u>	<u>(779)</u>	<u>(779)</u>	<u>-</u>
Total expenditures	<u>13,131,375</u>	<u>13,118,596</u>	<u>12,998,448</u>	<u>120,148</u>
Revenues over (under) expenditures	<u>51,520</u>	<u>51,206</u>	<u>51,206</u>	<u>-</u>
Other financing sources (uses):				
Transfer to other funds	<u>(51,520)</u>	<u>(51,206)</u>	<u>(51,206)</u>	<u>-</u>
Total other financing sources (uses)	<u>(51,520)</u>	<u>(51,206)</u>	<u>(51,206)</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			<u>-</u>	
Fund balances, end of year			<u>\$ -</u>	

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

**Gates County Board of Education, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Balance - Budget and Actual**  
**Annually Budgeted Major Special Revenue Fund**  
**For the Year Ended June 30, 2011**

	<b>Federal Grants Fund</b>			<b>Variance with Final Budget- Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues:</b>				
U. S. Government	\$ 2,683,172	\$ 3,054,001	\$ 2,111,530	\$ (942,471)
Total revenues	<u>2,683,172</u>	<u>3,054,001</u>	<u>2,111,530</u>	<u>(942,471)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Instructional services				
Regular instructional	213,667	267,481	223,952	43,529
Special populations	560,635	592,085	559,252	32,833
Alternative programs	566,559	611,491	575,959	35,532
School leadership	373,146	310,279	289,088	21,191
School-based support	250,078	285,220	222,044	63,176
System-wide support services:				
Support and development	4,000	4,000	-	4,000
Special populations support	1,500	1,119	1,119	-
Operational support	54,000	138,732	137,427	1,305
Financial and human resources	6,000	54,229	48,906	5,323
Policy, leadership and public relations	1,000	712	750	(38)
Non-programmed charges	<u>652,587</u>	<u>788,653</u>	<u>53,033</u>	<u>735,620</u>
Total expenditures	<u>2,683,172</u>	<u>3,054,001</u>	<u>2,111,530</u>	<u>942,471</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balances, beginning of year			-	
Fund balances, end of year			<u>\$ -</u>	

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

**Gates County Board of Education, North Carolina**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	Enterprise Funds		
	Major Fund	Nonmajor Fund	Total
	School Food Service	Child Care	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 231,286	\$ -	\$ 231,286
Accounts receivable	3,889	27,953	31,842
Due from other governments	14,113	-	14,113
Inventories	39,410	-	39,410
Total current assets	<u>288,698</u>	<u>27,953</u>	<u>316,651</u>
Noncurrent assets:			
Capital assets:			
Food service equipment, net	<u>58,867</u>	<u>-</u>	<u>58,867</u>
Total noncurrent assets	<u>58,867</u>	<u>-</u>	<u>58,867</u>
Total assets	<u>\$ 347,565</u>	<u>\$ 27,953</u>	<u>\$ 375,518</u>
<b>LIABILITIES</b>			
Current liabilities:			
Compensated absences	\$ 23,736	\$ -	\$ 23,736
Due to other funds	-	10,978	10,978
Parent deposits	-	500	500
Total current liabilities	<u>23,736</u>	<u>11,478</u>	<u>35,214</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	58,867	-	58,867
Unrestricted	<u>264,962</u>	<u>16,475</u>	<u>281,437</u>
Total net assets	<u>323,829</u>	<u>16,475</u>	<u>340,304</u>
Total liabilities and net assets	<u>\$ 347,565</u>	<u>\$ 27,953</u>	<u>\$ 375,518</u>

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

**Gates County Board of Education, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2011**

	Enterprise Fund		Total
	Major Fund School Food Service	Nonmajor Fund Child Care	
<b>OPERATING REVENUES</b>			
Food sales	\$ 324,370	\$ -	\$ 324,370
Child care fees	-	195,513	195,513
Total operating revenues	<u>324,370</u>	<u>195,513</u>	<u>519,883</u>
<b>OPERATING EXPENSES</b>			
Food cost:			
Purchase of food	267,317	-	267,317
Donated commodities	58,800	-	58,800
Salaries and benefits	462,705	149,976	612,681
Indirect costs	76,817	-	76,817
Materials and supplies	49,370	27,831	77,201
Depreciation	8,413	-	8,413
Contracted services	12,873	-	12,873
Travel	208	-	208
Bad debt	-	6,885	6,885
Other	2,672	540	3,212
Total operating expenses	<u>939,175</u>	<u>185,232</u>	<u>1,124,407</u>
Operating income (loss)	<u>(614,805)</u>	<u>10,281</u>	<u>(604,524)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Federal reimbursements	540,473	-	540,473
Federal commodities	58,800	-	58,800
Indirect costs	25,152	-	25,152
Interest earned	91	-	91
Total nonoperating revenues (expenses)	<u>624,516</u>	<u>-</u>	<u>624,516</u>
Income (loss) before contributions and transfers	9,711	10,281	19,992
Transfers from other funds	<u>51,206</u>	<u>-</u>	<u>51,206</u>
Change in net assets	60,917	10,281	71,198
Total net assets - beginning	262,912	6,194	269,106
Total net assets - ending	<u>\$ 323,829</u>	<u>\$ 16,475</u>	<u>\$ 340,304</u>

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

**Gates County Board of Education, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2011**

**Exhibit 9**

	<b>Enterprise Funds</b>		
	<b>Major Fund</b>	<b>Non-Major Fund</b>	<b>Total</b>
	<b>School Food Service</b>	<b>Child Care</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 323,984	\$ 190,554	\$ 514,538
Cash paid for goods and services	(384,920)	(35,256)	(420,176)
Cash paid to employees for services	(360,289)	(149,975)	(510,264)
Net cash provided (used) by operating activities	(421,225)	5,323	(415,902)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Decrease (increase) in due from other funds	-	(5,323)	(5,323)
Federal reimbursements	548,493	-	548,493
Net cash provided (used) by noncapital financing activities	548,493	(5,323)	543,170
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets	(11,341)	-	(11,341)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on investments	91	-	91
Net increase (decrease) in cash and cash equivalents	116,019	-	116,019
Balances-beginning of the year	115,267	-	115,267
Balances-end of the year	\$ 231,286	\$ -	\$ 231,286
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (614,805)	\$ 10,281	\$ (604,524)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	8,413	-	8,413
Donated commodities consumed	58,800	-	58,800
Salaries paid by special revenue fund	51,206	-	51,206
Indirect costs not paid	25,152	-	25,152
Changes in assets and liabilities:			
(Increase) decrease in accounts receivables	(386)	(5,458)	(5,844)
(Increase) decrease in due from other funds	47,996	-	47,996
(Increase) decrease in inventory	(814)	-	(814)
Increase (decrease) in customer deposits	-	500	500
Increase (decrease) in compensated absences	3,214	-	3,214
Total adjustments	193,580	(4,958)	188,622
Net cash provided (used) by operating activities	\$ (421,225)	\$ 5,323	\$ (415,902)

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

**Gates County Board of Education, North Carolina  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2011**

---

**Exhibit 9**

**Noncash investing, capital, and financing activities:**

The State Public School Fund paid salaries and benefits of \$51,206 to administrative personnel of the School Food Service Fund during the year. The payment is reflected as a transfer in and an operating expense on Exhibit 8.

Indirect costs of \$25,152 that would be due to the General Fund were not paid. These unpaid costs are reflected as a nonoperating revenue and an operating expense on Exhibits 8.

The School Food Service Fund received donated commodities with a value of \$58,800 during the fiscal year. The receipt of the commodities is recognized as a nonoperating revenue. The Fund recorded the consumption of \$58,800 worth of donated commodities during the fiscal year as an operating expense. These transactions are reported on Exhibit 8.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

---

**I. Summary of Significant Accounting Policies**

The accounting policies of the Gates County Board of Education conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

**A. Reporting Entity**

The Gates County Board of Education (Board) is a Local Education Agency empowered by State law [Chapter 115C of the North Carolina General Statutes] with the responsibility to oversee and control all activities related to public school education in Gates County, North Carolina. The Board receives State, local and federal government funding and must adhere to the legal requirements of each funding entity.

**B. Basis of Presentation – Fund Accounting**

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Board and for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the Board's funds, including its fiduciary funds. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Board reports the following major governmental funds:

*General Fund.* The General Fund is the general operating fund of the Board. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. This fund is the "Local Current Expense Fund," which is mandated by State law [G.S. 115C-426].

*State Public School Fund.* The State Public School Fund includes appropriations from the Department of Public Instruction for the current operating expenditures of the public school system.



**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

---

*Federal Grants Fund.* The Federal Grants Fund is used to account for various programs and grants, which the federal government provided to the local administrative unit.

*Individual Schools Fund.* The Individual Schools Fund includes revenues and expenditures of the activity funds of the individual schools. The primary revenue sources include funds held on the behalf of various clubs and organizations, receipts from athletic events, and proceeds from various fund raising activities. The primary expenditures are for athletic teams, club programs, activity buses, and instructional needs.

The Board reports the following major enterprise fund:

*School Food Service Fund.* The School Food Service Fund is used to account for the food service program within the school system.

**C. Measurement Focus and Basis of Accounting**

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Board funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

All governmental and business-type activities and enterprise funds of the Board follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**D. Budgetary Data**

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue funds, as required by North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. The superintendent is authorized by the governing Board to transfer appropriations within a fund. The

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

---

superintendent may transfer amounts and objects of expenditures within a function without limitations and without a report being required. All amendments must be approved by the governing Board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

**E. Assets, Liabilities and Fund Equity**

**1. Deposit and Investments**

All deposits of the Board are made in board-designated official depositories and are secured as required by State law [G.S. 115C-444]. The Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. The Board also has money credited in its name with the State Treasurer and may issue State warrants against these funds.

State law [G.S. 115C-443] authorizes the Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund; and the North Carolina State Treasurer's Short Term Investment Fund (STIF).

The STIF is managed by the staff of the Department of State Treasurer and operated in accordance with state laws and regulations. It is not registered with the SEC. The STIF consists of an internal portion and an external portion in which the board participates. Investments are restricted to those enumerated in G.S. 147-69-1.

The Board's investments are reported at fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities are valued at fair value, which is the NCCMT's share price. The STIF securities are reported at cost and maintain a constant \$1 per share value. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the STIF are distributed to external participants of the fund.

The Board had no investments at June 30, 2011 or during the year then ended that were required to be reported at fair value and consequently, there were no changes in the fair value of investments.

**2. Cash and Cash Equivalents**

For the Statement of Cash Flows, the Board considers demand deposits, and short-term, highly liquid investments which are readily convertible to known amounts of cash and have original maturities of three months or less to be cash and cash equivalents. All cash and investments are essentially demand deposits and are considered cash and cash equivalents.

**3. Inventories**

The inventories of the Board are valued at cost and the Board uses the first-in, first-out (FIFO) flow assumption in determining cost. The Board had no inventories in the General Fund. Proprietary Fund inventories consist of food and supplies and are recorded as expenses when consumed.

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

---

**4. Capital Assets**

The Board's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation or forfeiture. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1, 2000 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the Board to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. In addition, other items that are purchased and used in large quantities such as student desks are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Gates County holds title to certain properties, which are reflected as capital assets in the financial statements of the Board. The properties have been deeded to the County to permit installment purchase financing of acquisition and construction costs and to permit the County to receive refunds of sales tax paid for construction costs. Agreements between the County and the Board gives the schools full use of the facilities, full responsibility for maintenance of the facilities, and provides that the County will convey title of the property back to the Board, once all restrictions of the financing agreements and all sales tax reimbursement requirements have been met.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	15-50
Equipment, furniture, vehicles, and library books	3-15

Depreciation for capital assets that serve multiple purposes cannot be allocated ratably and is therefore reported as "unallocated depreciation" on the Statement of Activities.

**5. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

**6. Compensated Absences**

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2011 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records, of the current portion of compensated absences.

The sick leave policy of the Board provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

---

**7. Net Assets/Fund Balances**

**Net Assets**

Net assets in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments, or imposed by law through state statute.

**Fund Balance**

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

**Nonspendable fund balance** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**Inventories** – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

**Assets held for resale** – portion of fund balance that is not an available resource because it represents the year end balance of assets held for resale, which are not spendable resources.

**Restricted fund balance** – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

**Restricted for Stabilization by State Statute** – portion of fund balance that is restricted by State Statute [G.S. 115C-425(a)].

**Restricted for School Capital Outlay** – portion of fund balance that can only be used for School Capital Outlay. [G.S. 159-18 through 22]

**Restricted for Individual Schools** – revenue sources restricted for expenditures for the various clubs and organizations, athletic events, and various fund raising activities for which they are collected.

**Committed fund balance** – portion of fund balance that can only be used for specific purpose imposed by majority vote by quorum of the Board of Education's governing body (highest level of decision-making authority) and in certain instances approval by the County's governing body is required. Any changes or removal of specific purposes requires majority action by the governing bodies that approved the original action.

**Assigned fund balance** – portion of fund balance that Gates County Board of Education intends to use for specific purposes.

**Subsequent year's expenditures** – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

---

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

**8. Reconciliation of Government-wide and Fund Financial Statements**

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$12,823,202 consists of several elements as follows:

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 23,943,790
Less - Accumulated Depreciation	<u>(10,154,384)</u>
	13,789,406
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Installment Purchase Obligations	(75,745)
Compensated Absences	<u>(890,459)</u>
Total adjustment	<u>\$ 12,823,202</u>

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

---

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of (\$311,047) as follows:

Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 138,212
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements.	(555,948)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affect only the statement of net assets in the government-wide statements	75,746
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements.	
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	30,943
	<u>\$ (311,047)</u>

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2011, the Board reported expenditures within the following funds that violated State law [G.S. 115C-441] because they exceeded the amounts appropriated in the budget ordinance.

<b>Capital Outlay Fund:</b>	
County Construction	\$ 44,850

*Corrective Action Plan:* It was budgeted and board approved in the prior year; however, it was not recorded on the county books and therefore not reported on ours until current year. In the future, we will monitor county construction activity as it applies to our district.

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

**III. Detail Notes on All Funds**

**A. Assets**

**1. Deposits**

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity of the Board, these deposits are considered to be held by the agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Board under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Board has no policy regarding custodial credit risk for deposits.

At June 30, 2011 the Board had deposits with banks with a carrying amount of \$1,676,169 and with the State Treasurer of \$0. The bank balances with the financial institutions and the State Treasurer was \$1,896,166 and \$400,386, respectively. Of these balances, \$262,625 was covered by federal depository insurance and \$1,414,544 was covered by collateral held under the Pooling Method.

**2. Accounts Receivable**

Receivables at the government-wide level at June 30, 2011, were as follows:

	Due from other funds (internal balances)	Due from other governments	Other	Total
<b>Governmental activities:</b>				
General Fund	\$ 10,978	\$ -	\$ 1,375	\$ 12,353
Other governmental	-	304,279	-	304,279
<b>Total governmental activities:</b>	<b>\$ 10,978</b>	<b>\$ 304,279</b>	<b>\$ 1,375</b>	<b>\$ 316,632</b>
<b>Business-type activities</b>				
School Food Service	\$ -	\$ 14,113	\$ 3,889	\$ 18,002
Child Care	-	-	27,953	27,953
	<b>\$ -</b>	<b>\$ 14,113</b>	<b>\$ 31,842</b>	<b>\$ 45,955</b>

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

Due from other governments consists of the following:

**Governmental activities:**

State Public School Fund	\$ 276,722	Operating revenues from NC Dept of Public Instruction
Federal Grants Fund	<u>27,557</u>	Federal grants funds
Total General Fund	<u>\$ 304,279</u>	

**Business-type activities:**

School Food Service Fund	<u>\$ 14,113</u>	USDA reimbursement
--------------------------	------------------	--------------------

**3. Capital Assets**

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 53,670	\$ -	\$ -	\$ 53,670
Construction in progress	-	20,000	-	20,000
Total capital assets not being depreciated	<u>53,670</u>	<u>20,000</u>	<u>-</u>	<u>73,670</u>
<b>Capital assets being depreciated:</b>				
Buildings	21,647,001	-	-	21,647,001
Equipment and furniture	573,886	110,481	-	684,367
Vehicles	<u>1,544,921</u>	<u>7,731</u>	<u>13,900</u>	<u>1,538,752</u>
Total capital assets being depreciated	<u>23,765,808</u>	<u>118,212</u>	<u>13,900</u>	<u>23,870,120</u>
<b>Less accumulated depreciation for:</b>				
Buildings	8,542,249	394,299	-	8,936,548
Equipment and furniture	396,222	58,250	-	454,472
Vehicles	<u>673,865</u>	<u>103,399</u>	<u>13,900</u>	<u>763,364</u>
Total accumulated depreciation	<u>9,612,336</u>	<u>555,948</u>	<u>13,900</u>	<u>10,154,384</u>
Total capital assets being depreciated, net	<u>14,153,472</u>			<u>13,715,736</u>
<b>Governmental activity capital assets, net</b>	<b>\$ 14,207,142</b>			<b>\$ 13,789,406</b>
Unallocated depreciation		\$ 469,161		
Business support services		86,787		
Total		<u>\$ 555,948</u>		

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<b>School Food Service Fund:</b>				
<b>Capital assets being depreciated:</b>				
Food service equipment	\$ 259,125	\$ 11,341	\$ -	\$ 270,466
Total capital assets being depreciated	<u>259,125</u>	<u>11,341</u>	<u>-</u>	<u>270,466</u>
<b>Less accumulated depreciation for:</b>				
Food service equipment	<u>203,186</u>	<u>8,413</u>	<u>-</u>	<u>211,599</u>
Total accumulated depreciation	<u>203,186</u>	<u>8,413</u>	<u>-</u>	<u>211,599</u>
<b>Business-type activities capital assets, net</b>	<b>\$ 55,939</b>			<b>\$ 58,867</b>



**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

---

**B. Liabilities**

**1. Pensions Plan Obligations**

**a. Teachers' and State Employees' Retirement System**

*Plan Description.* Gates County Board of Education contributes to the statewide Teachers' and State Employees' Retirement System (TSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS provides retirement benefits to plan members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 10.51% of annual covered payroll. The contribution requirements of plan members and Gates County Board of Education are established and may be amended by the North Carolina General Assembly. The Board's contributions to TSERS for the years ended June 30, 2011, 2010, and 2009, and were \$1,198,219, \$1,027,312, and \$1,030,836, respectively, equal to the required contributions for each year.

**b. Other Post-Employment Benefits**

**1. Healthcare Benefits**

*Plan Description.* The post retirement benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Director and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employees making contributions to the Plan.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the State's Comprehensive Major Medical Plan (also, referred to as the State Health Plan). An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

*Funding Policy:* The Comprehensive Major Medical Plan is administered by the Executive Administrator and the Board of Trustees of the Plan, which establish premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service credit are

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

---

eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2011, 2010, and 2009, the School Board paid all annual required contribution to the Plan for postemployment healthcare benefits of \$558,727, \$528,334, and \$519,219, respectively. These contributions represented 4.93%, 4.50%, and 4.10% of covered payroll, respectively.

**2. Long-term Disability Benefits**

*Plan Description.* Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan. The DIPNC is administered by the board of Trustees of the Teachers' and State Employees' Retirement System. Long-term disability benefits are payable as another postemployment benefit for DIPNC after the conclusion of the short term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan accumulates contributions from employees and any earnings on those contributions in the Disability Income Plan Trust Fund. The plan does not provide for automatic post-retirement benefit increases.

The State of North Carolina issues a publicly available report that includes financial statements and required supplementary information for the DIPNC. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

*Funding Policy.* An employee is eligible to receive long-term disability benefits provide the following requirements are met: (1) the employee has five or more years of contribution membership service in the Teachers' and State Employees' Retirement System of North Carolina, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments of or permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service at any age.

For members with five or more years of membership service as of July 31, 2007, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled. The monthly benefit shall be further reduced by the amount of any monthly payments from the Department of Veterans Affairs, and other federal agency or any payments made under the provisions of G.S. 127A-108, to which the participant or beneficiary may be entitled on account of the same disability. Provided in any event, the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS. For members who obtain five years of membership service on or after August 1, 2007, the monthly long-term disability benefit is reduced by the primary Social Security retirement benefit to which you might be entitled should you become age 62 during the first 36 months. After 36 months of long-term disability, there will be no further payments from the DIPNC unless the member is approved for and in receipt of primary Social Security disability benefits. It is payable so long as the member remains disabled and is in receipt of a primary Social Security disability benefit until eligible for an unreduced service retirement benefit. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS.

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135 Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separate from the number of members currently eligible to receive disability benefits as another postemployment benefit. For the fiscal years ended June 30, 2011, 2010, and 2009, the Board paid all annual required contributions to the DIPNC for disability benefits of \$59,594, \$61,051, and \$65,852, respectively. These contributions represented 0.52%, 0.52%, and 0.52% of covered payroll, respectively.

**3. Accounts Payable**

Accounts payable as of June 30, 2011 is as follows:

	<u>Due to Other Funds</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental activities:				
General Fund	\$ -	4,234	155,257	\$ 159,491
Other governmental	-	304,279	-	304,279
Total governmental activities:	<u>\$ -</u>	<u>\$ 308,513</u>	<u>\$ 155,257</u>	<u>\$ 463,770</u>
Business-type activities:				
School Food Service	\$ -	\$ -	\$ -	\$ -
Child Care	10,978	-	-	10,978
Total business-type activities	<u>\$ 10,978</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,978</u>

**4. Risk Management**

The Board is exposed to various risks of losses to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim. The Trust has annual aggregate limit for general liability of \$2,550,000 and an annual aggregate limit of \$2,550,000 for errors and omission claims.

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability. Statutory workers' compensation coverage is purchased through private insurers (or self-insured by the local board). Coverage is provided to the extent employees are paid from Federal or local funds. Workers' Compensation coverage is provided by the State of North Carolina through a self-insured fund, to the extent employees are paid from State funds. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing administered by the North Carolina Department of Public Instruction. This insures the tangible property assets of the Board. Coverage is provided on an "all risk" perils contract. Buildings and contents are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the Fund in the event of a catastrophic event. The Fund maintains a self-insured retention of \$10 million. Excess reinsurance is purchased through commercial insurers. A limit of \$5 million per occurrence is provided on Flood, Earthquake, Business Interruption and Extra Expense. \$10 million per occurrence is provided on Increased Cost of Construction.

The Board also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the Board are eligible to receive health care benefits up to a \$5 million lifetime limit. The Board pays the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan.

In accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time of the Board's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000.

The Board carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and claims have not exceeded coverage in any of the past three fiscal years.

**5. Long-Term Liabilities**

**Installment Purchase**

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot monies for the payments on financing contracts entered into pursuant to G.S. 115C-528. The state has accepted a bid to purchase replacement school buses through a special third party financing arrangement by Banc of America Public Capital Corporation at total payments less than the purchase price.

The following is a summary of changes in the Board's long-term obligations for the fiscal year ended June 30, 2011:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion
<i>Governmental activities:</i>					
Installment purchases	\$ 151,493	\$ -	\$ 75,746	\$ 75,747	\$ 37,873
Compensated absences	921,403	1,143,208	1,174,152	890,459	890,459
Total	\$ 1,072,896	\$ 1,143,208	\$ 1,249,898	\$ 966,206	\$ 928,332
<i>Business-type activities:</i>					
Compensated absences	\$ 20,522	\$ 27,463	\$ 24,249	\$ 23,736	\$ 23,736

Compensated absences are typically liquidated by the general or other governmental funds.

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2011**

---

6. Interfund Balances and Activities

Transfers to/from other funds at June 30, 2011, consist of the following:

	<u>Amount</u>
From the State Public School Fund to the School Food Service Fund	<u>\$ 51,206</u>

C. Fund Balance

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation.

<b>Total fund balance - General Fund</b>	<b>\$ 1,054,288</b>
Less:	
Stabilization for State Statute	12,353
Appropriated Fund Balance for 2012 budget	144,978
<b>Remaining Fund Balance</b>	<b>\$ 896,957</b>

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Board has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

**Gates County Board of Education, North Carolina**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2011**

	2011		Variance Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
State of North Carolina:			
Other	\$ 358,679	\$ 349,705	\$ (8,974)
Total	<u>358,679</u>	<u>349,705</u>	<u>(8,974)</u>
U. S. Government:	<u>25,000</u>	<u>46,390</u>	<u>21,390</u>
Gates County:			
Community center appropriation	195,000	195,000	-
Appropriation from county	<u>2,567,079</u>	<u>2,567,079</u>	<u>-</u>
Total	<u>2,762,079</u>	<u>2,762,079</u>	<u>-</u>
Other:			
Activity bus fund	54,500	47,708	(6,792)
Fines and forfeitures	65,064	65,064	-
Indirect cost	107,702	107,702	-
Interest earned on investments	1,703	1,847	144
Miscellaneous revenue	147,444	178,271	30,827
Rental of school property	4,705	4,705	-
Sales tax	32,398	32,398	-
Tuition and fees	<u>23,167</u>	<u>20,741</u>	<u>(2,426)</u>
Total	<u>436,683</u>	<u>458,436</u>	<u>21,753</u>
<b>Total revenues</b>	<u>3,582,441</u>	<u>3,616,610</u>	<u>34,169</u>
<b>Expenditures:</b>			
Instructional services			
Regular instructional	184,426	127,876	56,550
Special population	23,029	12,178	10,851
Alternative programs	371,987	359,163	12,824
School leadership	102,986	102,986	-
Co-curricular	109,668	109,668	-
School-based support	<u>207,444</u>	<u>206,260</u>	<u>1,184</u>
Total	<u>999,540</u>	<u>918,131</u>	<u>81,409</u>

**Gates County Board of Education, North Carolina**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2011**

	2011		Variance
	Budget	Actual	Positive (Negative)
System-wide support services			
Support and development	23,305	23,305	-
Special population support and development	1,004	1,004	-
Operational support	1,938,773	1,913,091	25,682
Financial and human resources	246,209	246,196	13
Accountability	1,415	1,415	-
System-wide pupil support	123,142	123,142	-
Policy, leadership and public relations	150,989	150,979	10
Total	<u>2,484,837</u>	<u>2,459,132</u>	<u>25,705</u>
Ancillary services	<u>216,632</u>	<u>205,756</u>	<u>10,876</u>
Non-programmed charges	<u>156</u>	<u>154</u>	<u>2</u>
<b>Total expenditures</b>	<u>3,701,165</u>	<u>3,583,173</u>	<u>117,992</u>
<b>Excess of revenues over expenditures</b>	<u>(118,724)</u>	<u>33,437</u>	<u>152,161</u>
<b>Other financing sources (uses):</b>			
Fund balance appropriated	<u>118,724</u>	<u>-</u>	<u>(118,724)</u>
Total	<u>118,724</u>	<u>-</u>	<u>(118,724)</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>33,437</u>	<u>\$ 33,437</u>
<b>Fund balance:</b>			
Beginning of year, July 1		<u>1,020,851</u>	
End of year, June 30		<u>\$ 1,054,288</u>	



**Gates County Board of Education, North Carolina  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
Federal Grants Fund  
For the Year Ended June 30, 2011**

	2011		Variance
	Budget	Actual	Positive (Negative)
<b>Revenues:</b>			
U. S. Government	<u>\$ 3,054,001</u>	<u>\$ 2,111,530</u>	<u>\$ (942,471)</u>
Total revenues	<u>3,054,001</u>	<u>2,111,530</u>	<u>(942,471)</u>
<b>Expenditures:</b>			
Instructional services	2,066,556	1,870,294	196,262
System-wide supporting services	198,792	188,202	10,590
Non-programmed charges	<u>788,653</u>	<u>53,034</u>	<u>735,619</u>
Total expenditures	<u>3,054,001</u>	<u>2,111,530</u>	<u>942,471</u>
<b>Revenues over expenditures</b>	<u><u>\$ -</u></u>	-	<u><u>\$ -</u></u>
<b>Fund balances:</b>			
Beginning of year, July 1		-	
End of year, June 30		<u><u>\$ -</u></u>	

**Gates County Board of Education, North Carolina  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
Capital Outlay Fund  
For the Year Ended June 30, 2011**

	2011		Variance Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
<b>Gates County:</b>			
General appropriation	\$ 100,000	\$ 100,000	\$ -
Appropriations from county issued installment purchase	-	44,850	44,850
Total Gates County	100,000	144,850	44,850
<b>State of North Carolina:</b>			
Appropriation for buses	75,746	75,746	-
Total State of North Carolina	75,746	75,746	-
<b>Other revenues:</b>			
Interest earned on investments	115	114	(1)
Miscellaneous	16,849	17,068	219
Total other revenues	16,964	17,182	218
Total revenue	192,710	237,778	45,068
<b>Expenditures:</b>			
<b>Capital outlay:</b>			
Real property and buildings:			
Other real property and buildings			
GCHS through county	59,152	104,002	(44,850)
General renovations	20,075	20,075	-
Additions to schools	381	381	-
Painting of schools	37,356	37,356	-
Total real property and buildings	116,964	161,814	(44,850)
<b>Debt service:</b>			
Principal	75,746	75,746	-
Total debt service	75,746	75,746	-
Total expenditures	192,710	237,560	(44,850)
<b>Revenues over expenditures</b>	\$ -	218	\$ 218
<b>Fund Balance, July 1</b>		65,854	
<b>Fund Balance, June 30</b>		\$ 66,072	

**Gates County Board of Education, North Carolina**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**School Food Service Fund**  
**For the Year Ended June 30, 2011**

	2011		Variance
	Budget	Actual	Positive (Negative)
Operating revenues, food sales	\$ 354,425	\$ 324,370	\$ (30,055)
Operating expenditures:			
Business support services:			
Purchase of food	345,287	268,131	-
Donated commodities	45,000	58,800	-
Salaries and benefits	411,805	459,491	-
Indirect costs	68,000	76,817	-
Materials and supplies	58,549	49,370	-
Contracted services	12,873	12,873	-
Travel	500	208	-
Other	7,722	2,672	-
Total business support services	949,736	928,362	21,374
Capital outlay	26,500	11,341	15,159
Total operating expenditures	976,236	939,703	36,533
Operating income (loss)	(621,811)	(615,333)	6,477
Nonoperating revenues (expenditures):			
Federal reimbursements	524,000	540,473	-
Federal commodities	43,261	58,800	-
Interest earned	50	91	-
Indirect costs allocated	65,000	25,152	-
Depreciation	(10,500)	-	-
Total nonoperating revenues (expenditures)	621,811	624,516	2,705
Excess of revenues over (under) expenditures before other financing sources	-	9,183	9,182
Other financing sources:			
Transfers from other funds	-	51,206	51,206
Excess of revenues and other sources over expenditures	\$ -	60,389	\$ 60,389
Reconciliation of modified accrual to full accrual:			
Reconciling items:			
Depreciation		(8,413)	
Indirect cost		(25,152)	
Indirect cost not paid		25,152	
Equipment purchases		11,341	
(Increase) decrease in compensated absences		(3,214)	
Increase (decrease) in inventory		814	
Net income (full accrual)		\$ 60,917	

**Gates County Board of Education, North Carolina**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**Child Care Fund**  
**For the Year Ended June 30, 2011**

	2011		Variance
	Budget	Actual	Positive (Negative)
<b>Revenues:</b>			
Child care fees	\$ 180,000	\$ 195,513	\$ 15,513
Total revenues	<u>180,000</u>	<u>195,513</u>	<u>15,513</u>
<b>Expenditures:</b>			
Regular community service:			
Salaries and wages	149,976	149,976	-
Materials and supplies	27,831	27,831	-
Bad debt	-	6,885	(6,885)
Workshop	540	540	-
Unbudgeted	1,653	-	1,653
Total regular community service	<u>180,000</u>	<u>185,232</u>	<u>(5,232)</u>
<b>Revenues over expenditures</b>	<u>\$ -</u>	10,281	<u>\$ 10,281</u>
<b>Reconciliation from budgetary basis</b> <b>(modified accrual) to full accrual</b>			
<b>Reconciling items:</b>			
Indirect cost		-	
<b>Net Income</b>		<u>\$ 10,281</u>	

## **COMPLIANCE SECTION**

# DOUGLAS A. HOLLOWELL P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION

1880 WEST CITY DRIVE  
P.O. BOX 1387  
ELIZABETH CITY, NORTH CAROLINA 27906  
TELEPHONE: (252) 338-8021  
1-888-825-8059  
FAX (252) 338-4148

102 WEST EDEN STREET  
P.O. BOX 567  
EDENTON, NORTH CAROLINA 27932  
TELEPHONE: (252) 482-8461  
FAX (252) 482-4921

DOUGLAS A. HOLLOWELL, C.P.A.  
DONNA HOLLOWELL, WINBORNE, C.P.A.

## **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 Members of the Board  
Gates County Board of Education  
Gatesville, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Gates County Board of Education, as of and for the year ended June 30, 2011, which collectively comprises the Gates County Board of Education's basic financial statements, and have issued our report thereon dated September 28, 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 Gates County Board of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gates County Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board'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 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.

### Compliance and Other Matters

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

#### MEMBERS OF:

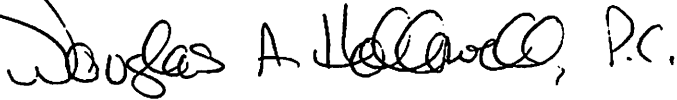
THE AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

THE VIRGINIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

THE NORTH CAROLINA  
ASSOCIATION OF CERTIFIED  
PUBLIC ACCOUNTANTS

under *Government Auditing Standards*.

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



Douglas A. Hollowell, P.C.

Douglas A. Hollowell, P.C.  
September 28, 2011

**DOUGLAS A. HOLLOWELL P.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION

1880 WEST CITY DRIVE  
P.O. BOX 1387  
ELIZABETH CITY, NORTH CAROLINA 27906  
TELEPHONE: (252) 338-8021  
1-888-825-8059  
FAX (252) 338-4148

102 WEST EDEN STREET  
P.O. BOX 567  
EDENTON, NORTH CAROLINA 27932  
TELEPHONE: (252) 482-8461  
FAX (252) 482-4921

DOUGLAS A. HOLLOWELL, C.P.A.  
DONNA HOLLOWELL WINBORNE, C.P.A.

**Report On Compliance With Requirements Applicable To Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 and the State Single Audit Implementation Act**

To the Members of the Board  
Gates County Board of Education  
Gatesville, North Carolina

**Compliance**

We have audited the compliance of the Gates County Board of Education, compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Gates County Board of Education's major federal programs for the year ended June 30, 2011. The Gates County Board of Education'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 the Gates County Board of Education's management. Our responsibility is to express an opinion on the Gates County Board of Education'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*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act 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 the Gates County Board of Education'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 the Gates County Board of Education's compliance with those requirements.

In our opinion, the Gates County Board of Education 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**

The management of the Gates County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Gates County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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

**MEMBERS OF:**

THE AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

THE VIRGINIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

THE NORTH CAROLINA  
ASSOCIATION OF CERTIFIED  
PUBLIC ACCOUNTANTS

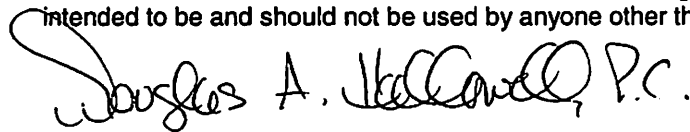


compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A deficiency in internal control over compliance 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, 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.

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

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

A handwritten signature in black ink that reads "Douglas A. Hollowell, P.C.". The signature is written in a cursive, flowing style.

Douglas A. Hollowell, P.C.  
September 28, 2011

**DOUGLAS A. HOLLOWELL P.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION

1880 WEST CITY DRIVE  
P.O. BOX 1387  
ELIZABETH CITY, NORTH CAROLINA 27906  
TELEPHONE: (252) 338-8021  
1-888-825-8059  
FAX (252) 338-4148

102 WEST EDEN STREET  
P.O. BOX 567  
EDENTON, NORTH CAROLINA 27932  
TELEPHONE: (252) 482-8461  
FAX (252) 482-4921

DOUGLAS A. HOLLOWELL, C.P.A.  
DONNA HOLLOWELL, WINBORNE, C.P.A.

**Report On Compliance With Requirements Applicable To Each Major State  
Program And Internal Control Over Compliance In Accordance With  
Applicable Sections of OMB Circular A-133 and the State Single Audit  
Implementation Act**

To the Members of the Board  
Gates County Board of Education  
Gatesville, North Carolina

**Compliance**

We have audited the compliance of the Gates County Board of Education, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major State programs for the year ended June 30, 2011. The Gates County Board of Education's major State 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 State programs is the responsibility of the Gates County Board of Education's management. Our responsibility is to express an opinion on the Gates County Board of Education'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 applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act 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 State program occurred. An audit includes examining, on a test basis, evidence about the Gates County Board of Education'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 the Gates County Board of Education's compliance with those requirements.

In our opinion, the Gates County Board of Education 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 State programs for the year ended June 30, 2011.

**Internal Control Over Compliance**

The management of the Gates County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Gates County Board of Education's internal control over compliance with

**MEMBERS OF:**

THE AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

THE VIRGINIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

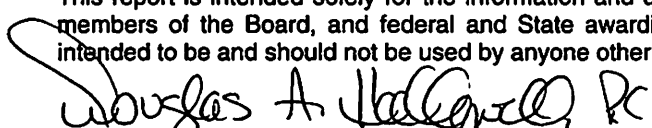
THE NORTH CAROLINA  
ASSOCIATION OF CERTIFIED  
PUBLIC ACCOUNTANTS

the requirements that could have a direct and material effect on a major State 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 with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, 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 the Board's internal control over compliance.

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 State 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 State program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Douglas A. Hollowell, P.C.

Douglas A. Hollowell, P.C.  
September 28, 2011

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2011**

**Section I. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Significant Deficiency(ies) identified  
that are not considered to be  
material weaknesses ☐ yes ☒ none reported

Noncompliance material to financial  
statements noted ☐ yes ☒ no

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified? ☐ yes ☒ no

Significant Deficiency(ies) identified  
that are not considered to be  
material weaknesses ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with Section 510(a)  
of Circular A-133 ☐ yes ☒ no

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
84.367	Title II, Improving Teacher Quality
10.553, 10.555, & 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between  
Type A and Type B Programs

\$ 300,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

**State Awards**

Internal control over major State programs:

Material weakness(es) identified? ☐ yes ☒ no

Significant Deficiency(ies) identified  
that are not considered to be  
material weaknesses ☐ yes ☒ none reported

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2011**

**Section I. Summary of Auditors' Results (contd.)**

**State Awards (contd.)**

Type of auditors' report issued on compliance for major State programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with Section 510(a)  
of Circular A-133

\_\_\_\_\_ yes      X   no

Identification of major State programs:

Program Name

State Public School Fund

**Section II. Financial Statement Findings**

None reported.

**Section III. Federal Award Findings and Questioned Costs**

None reported.

**Section IV. State Award Findings and Questioned Costs**

None reported.

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**

**CORRECTIVE ACTION PLAN**

**For the Year Ended June 30, 2011**

There are no matters to report.

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the Year Ended June 30, 2011

There are no matters to report.

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2011**

<b>Grantor/Pass-through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>State/ Pass-through Grantor's Number</b>	<b>Expenditures</b>
<b>Federal Grants:</b>			
<u><b>U.S. Department of Agriculture</b></u>			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities)			
Passed-through the N.C. Department of Agriculture:			
National School Lunch Program	10.555		58,800
Non-Cash Assistance			58,800
<b>Cash Assistance</b>			
Passed-through the N.C. Department of Public Instruction:			
School Breakfast Program	10.553		\$ 153,605
National School Lunch Program	10.555		376,278
Summer Food Service for Children	10.559		196
Total Cash Assistance			530,079
Total U. S. Department of Agriculture			588,879
<u><b>U.S. Department of Education</b></u>			
Cash Assistance			
Passed-through the N.C. Department of Public Instruction:			
Title I, Part A Cluster			
Title I Grants to Local Education Agencies (Title I, Part A of ESEA)	84.010	PRC 050	420,855
ARRA-Title I Grants to Local Education Agencies	84.389	PRC 141	119,110
Total Title I, Part A Cluster			539,965
School Improvement Cluster			
Title I Grants to Local Education Agencies (Title I, Part A of ESEA) - School Improvements	84.010	PRC 105	77,961
ARRA-School Improvement Grants, Recovery Act	84.389	PRC 142	12,320
Total School Improvement Cluster			90,281
Safe and Drug Free Schools and Communities, Title IV, Part A	84.186	PRC 048	2,502



**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2011**

<b>Grantor/Pass-through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>State/ Pass-through Grantor's Number</b>	<b>Expenditures</b>
<b><u>Special Education Cluster:</u></b>			
Special Education - Grants to States (IDEA, Part B) - Education of the Handicapped	84.027	PRC 060	270,409
IDEA - Children with Disabilities - Risk Pool	84.027	PRC 114	67,574
IDEA VI-B Special Needs Targeted Assistance	84.027	PRC 118	12,067
Special Education - Preschool Grants (IDEA Preschool) - Capacity and Building Improvement Grants	84.173	PRC 044	19,959
Special Education - Preschool Grants (IDEA Preschool) - Preschool Handicapped	84.173	PRC 049	27,774
IDEA - Early Coordinated Warly Intervening Services (CEIS)	84.173	PRC 070	839
IDEA - Targeted Assistance for Preschool Federal Grant	84.173	PRC 119	9,999
IDEA VI-B Special Education State Improvement Grant	84.323	PRC 082	3,464
ARRA - Special Education - Grants to States (VI-B)	84.391	PRC 144	208,747
ARRA - Preschool Grants (IDEA Preschool) - Preschool Handicapped	84.392	PRC 145	11,302
Total Special Education Cluster:			<u>632,134</u>
 Career and Technical Education - Basic Grants to States - Program Development	 84.048	 PRC 017	 23,118
 Education for Homeless Children and Youth Cluster			
Education for Homeless Children and Youth	84.196	PRC 026	2,159
Total Education for Homeless Children and Youth Cluster			<u>2,159</u>
 Education Technology State Grants Cluster			
Education Technology State Grants (Enhancing Education through technology Program)	84.318	PRC 107	2,840
ARRA - Education Technology State Grants (Enhancing Education through technology Program)	84.386	PRC 146	667
Total Education Technology State Grants Cluster			<u>3,507</u>
 Teacher Quality Enhancement	84.367	PRC 103	102,024
State Fiscal Stabilization Fund	84.394	PRC 140	615,921
Race to the Top	84.395	PRC 156	99,919
Total U. S. Department of Education			<u>2,111,530</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
Division of Social Services:			
Medical Assistance Program	93.999		46,390
Total U. S. Department of Health and Human Services			<u>46,390</u>
 Total federal assistance			<u>2,746,799</u>

**GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
For the Year Ended June 30, 2011

<b>Grantor/Pass-through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>State/ Pass-through Grantor's Number</b>	<b>Expenditures</b>
<b>State Grants:</b>			
Cash Assistance			
<u>N. C. Department of Public Instruction:</u>			
State Public School Fund			\$ 12,237,248
Driver Training - SPSF		PRC 012	27,956
School Technology Fund - SPSF		PRC 015	25,470
Vocational Education			
- State Months of Education		PRC 013	713,088
- Program Support Funds		PRC 014	34,548
More at Four Pre-Kindergarten Program			215,335
State Breakfast Program			10,393
Dropout Prevention		#15112	<u>90,314</u>
Total N. C. Department of Public Instruction			13,354,352
<u>N. C. Arts Council - Department of Cultural Resources</u>			
Cultural Resources Grant		FY10-453	17,919
<u>N. C. Department of Health and Human Services:</u>			
School Nurse Grant			111,721
<u>Department of Juvenile Justice:</u>			
Passed-through Gates County:			
Juvenile Crime Prevention Program			40,042
Non-Cash Assistance			
<u>N. C. Department of Public Instruction:</u>			
Textbooks			<u>11,346</u>
Total State Assistance			<u>13,535,380</u>
Total federal and State Assistance			<u>\$ 16,282,179</u>

**Notes to the Schedule of Expenditures of Federal and State Awards:**

**1. Basis of Presentation**

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Gates County Board of Education and is from amounts presented in, or used in the preparation of the basic financial statements. Therefore some amounts presented in this schedule may differ from amounts presented on the modified basis of accounting. 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 presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act.

**2. The following are clustered by the NC Department of Public Instruction and are treated separately for state audit requirement purposes: School Improvement Cluster**