

Financial Statements

Gates County, North Carolina

Year Ended June 30, 2006

Gates County, North Carolina
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 June 30, 2006

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of County Commissioners
Gates County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for Gates County, North Carolina, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gates County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Gates County ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us; and our opinion, insofar as it relates to the amounts included for the Gates County ABC Board is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards 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 basic 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 and the report of the other auditors provide 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Gates County, North Carolina as of June 30, 2006, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

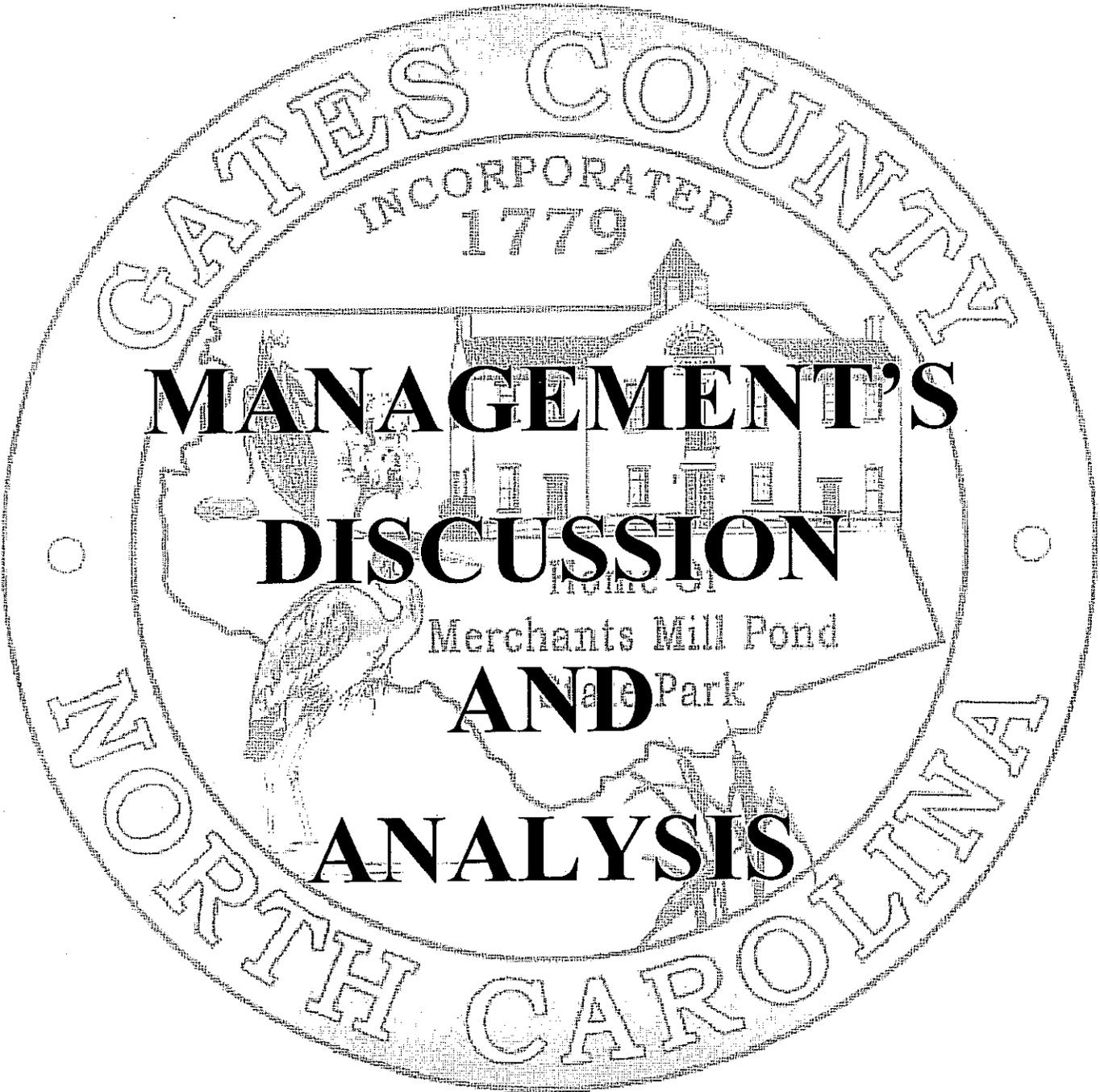
In accordance with Government Auditing Standards, we have also issued our report dated August 24, 2006 on our consideration of Gates County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by 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 supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Gates County, North Carolina. The introductory information, combining and individual nonmajor fund statements and 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 and the accompanying schedule of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit report and the report of other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pittard Perry & Co., Inc.

Ahoskie, North Carolina
August 24, 2006



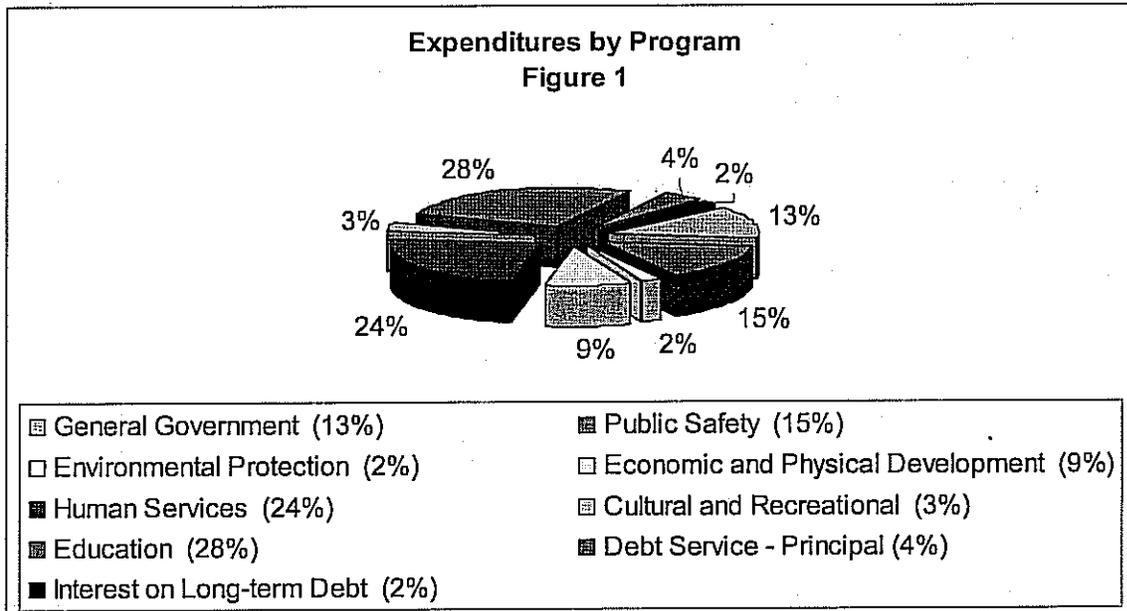
**MANAGEMENT'S
DISCUSSION
AND
ANALYSIS**

**GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

As management of Gates County, we are providing readers of Gates County's financial statements a narrative overview and analysis of Gates County's financial performance during the fiscal year ended June 30, 2006. We encourage financial statement readers to use the information provided in this discussion in conjunction with the County's basic financial statements which begin on page 21 of this report.

Financial Highlights

- Ad valorem tax revenue increased due to an increase in the tax rate from \$0 .85 to \$0.87
- For governmental activities, net assets increased by \$619,992 the current fiscal year.
- For business-type activities, net assets increased by \$22,421 during the current fiscal year.
- Gates County's capital assets for its governmental and business-type activities as of June 30, 2006, total \$7,183,135 (net of accumulated depreciation).
- As of June 30, 2006, Gates County had total debt outstanding of \$5,332,674.



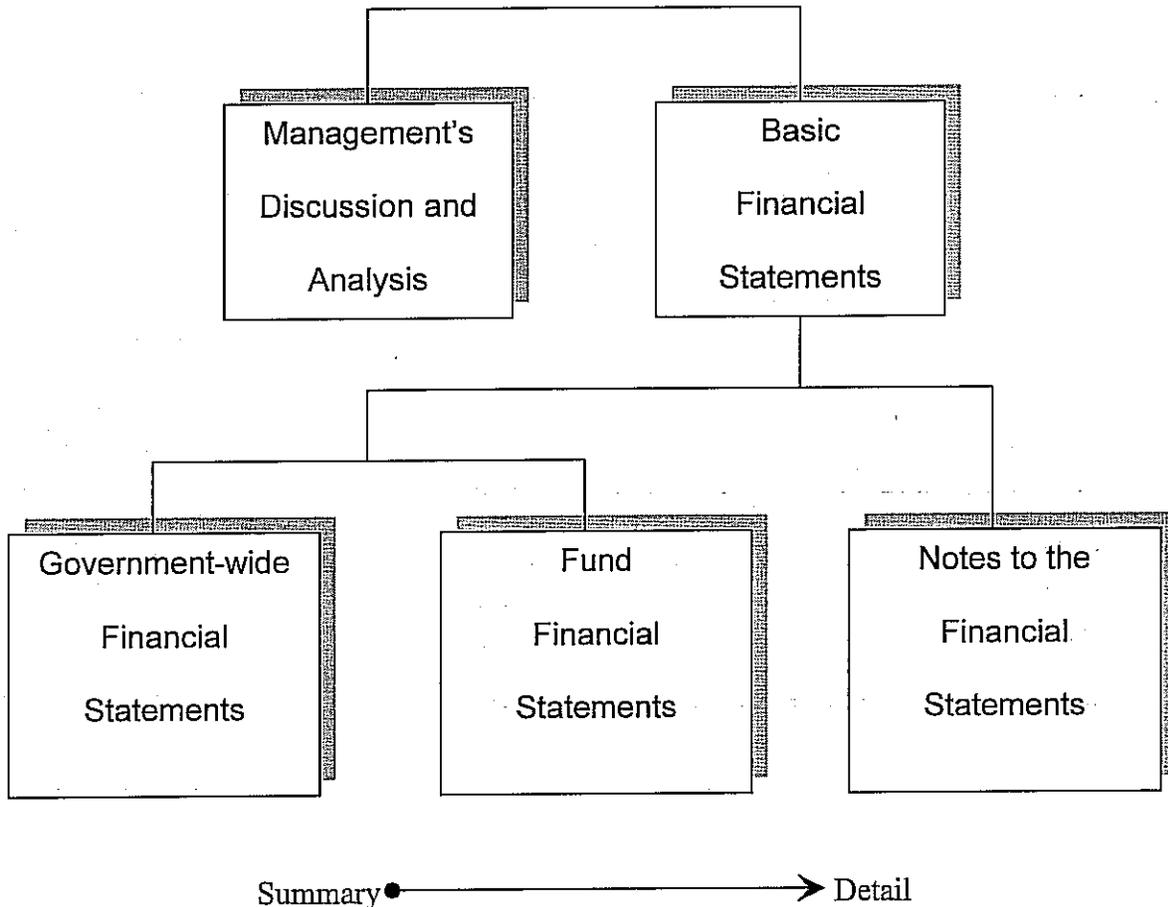
**GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Overview of the Financial Statements

Management's discussion and analysis is intended to provide an introduction to Gates County's basic financial statements. The financial section of this report includes management's discussion and analysis and the basic financial statements. The County's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 2). The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will supplement the reader's understanding of the financial position of Gates County.

Required Components of Annual Financial Report

Figure 2



**GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. These statements provide both short and long-term information about the County's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. They show how government services were financed and what remains for future spending at the end of the fiscal year. These statements also provide more detail about the County's operations than the government-wide statements by providing more information about the County's major funds. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the information contained in both the government-wide and fund financial statements. The notes are an integral and essential part of the basic financial statements.

After the notes, **supplemental information** is provided to show details about the County's non-major governmental funds, all of which are added together in one column on the basic financial statements. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities. These statements are designed to provide a broad overview of the County's finances. Government-wide financial statements are presented using the *accrual basis of accounting*, which is used by most private-sector businesses. (Accrual basis accounting takes into account all of the current year's revenues and expenses regardless of when cash is actually received or paid out). The government-wide statements provide short and long-term information about the County's financial status as a whole.

The two government-wide statements report the County's net assets (the Statement of Net Assets) and how they have changed (the Statement of Activities). Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to evaluate the County's financial position. Over time, increases or decreases in the County's net assets is a sign of whether the County's financial health is strengthening or weakening. The Statement of Activities reports net operating costs for government programs.

The government-wide statements (the Statement of Net Assets and the Statement of

**GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Activities) are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the County's basic services such as public safety and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. These include the water and landfill services offered by Gates County. The final category is the component units. Gates County ABC Board is a component unit for Gates County. Although legally separate from the County, the ABC Board is important to Gates County because the County is financially accountable for the Board by appointing its members and because the Board is required by State statute to distribute its profits to Gates County's general fund.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

Fund financial statements present the balances and changes in those balances for each of the government's funds. These statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Gates County, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of Gates County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. These funds focus on how money flows in and out of a fund and the amount available at year end for spending in future years. Governmental funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can easily be converted to cash. As a result, the governmental fund financial statements give the reader a detailed short-term view of the County's general government operations and the services provided by the government. Governmental fund information aids in determining if there are more or less financial resources available in the near future to finance the County's programs. Because the focus of governmental funds is different than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements. The relationship between government *activities* (reported in the

GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Statement of Net Assets and the Statement of Activities) and governmental *funds* is described in a reconciliation that is a part of the fund financial statements found on page 27.

Gates County adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds are used to report activities related to services that the County provides in which they also charge a fee for the services. Gates County has one kind of proprietary fund called an enterprise fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements (the Statement of Net Assets and the Statement of Activities). Gates County uses enterprise funds to account for its water activity and for its solid waste operations. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continual basis be financed or recovered primarily through user charges.

Fiduciary Funds are used to account for assets or resources the County holds on behalf of others outside of the government. The County has one fiduciary fund, and that is the Social Services Fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. These funds are presented separately in the fund financial statements section of the basic financial statements.

Notes to the Financial Statements are included in the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are an integral and essential part of the basic financial statements. They begin on page 35 of this report.

**GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2006

Government-Wide Financial Analysis

Gates County's Net Assets

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 2,956,881	\$ 3,191,395	\$ 1,725,268	\$ 1,581,622	\$ 4,682,149	\$ 4,773,017
Capital assets	1,406,146	955,077	5,776,989	5,942,417	7,183,135	6,897,494
Total assets	\$ 4,363,027	\$ 4,146,472	\$ 7,502,257	\$ 7,524,039	\$ 11,865,284	\$ 11,670,511
Long-term liabilities outstanding	\$ 3,832,291	\$ 4,222,518	\$ 1,500,383	\$ 1,612,811	\$ 5,332,674	\$ 5,835,329
Other liabilities	252,740	265,950	104,236	36,011	356,976	301,961
Total liabilities	4,085,031	4,488,468	1,604,619	1,648,822	5,689,650	6,137,290
Net assets:						
Invested in capital assets, net of related debt	1,568,938	936,047	4,289,391	4,342,122	5,858,329	5,278,169
Restricted	-	-	-	-	-	-
Unrestricted	(1,290,942)	(1,278,043)	1,608,247	1,533,095	317,305	255,052
Total net assets	\$ 277,996	\$ (341,996)	\$ 5,897,638	\$ 5,875,217	\$ 6,175,634	\$ 5,533,221

As noted earlier, net assets may serve over time as one useful indicator of Gates County's financial condition. The assets of Gates County exceeded liabilities by \$6,175,634 as of June 30, 2006. By far, the largest portion of the County's net assets is its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any outstanding debt related to acquiring these assets. Those capital assets are used to provide services to citizens and are not available for future spending. The County's net assets increased by \$642,413 for the fiscal year ended June 30, 2006. Although Gates County's investment in its capital assets is reported net of the outstanding related debt, it should be noted that the resources needed to repay that debt must be provided by other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2006, the County reported \$5,858,329 in net assets invested in capital assets net of related debt.

In some cases, there may be external restrictions on the County's net assets. These restrictions represent resources subject to existing external obligation or programmatic control on future use. At June 30, 2006, there were no external restrictions on net assets. The remaining balance in unrestricted net assets may be used to meet the government's ongoing obligations to the citizens and creditors. At June 30, 2006 Gates County's unrestricted net assets totaled \$317,305.

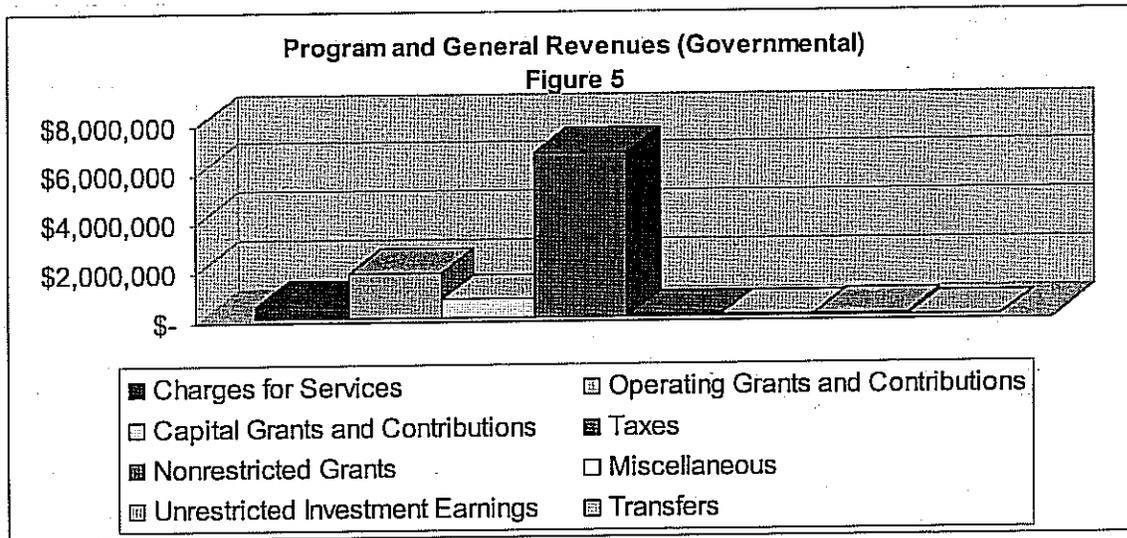
Total net assets in excess of liabilities at June 30, 2006 for the governmental and business-type activities were \$277,996 and \$5,897,638, respectively (refer to figure 3).

For governmental activities, net assets increased by \$619,992 during the current fiscal year. This increase can be attributed to:

- A property tax rate increase of \$.02 and increase in total valuation due to new construction

**GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

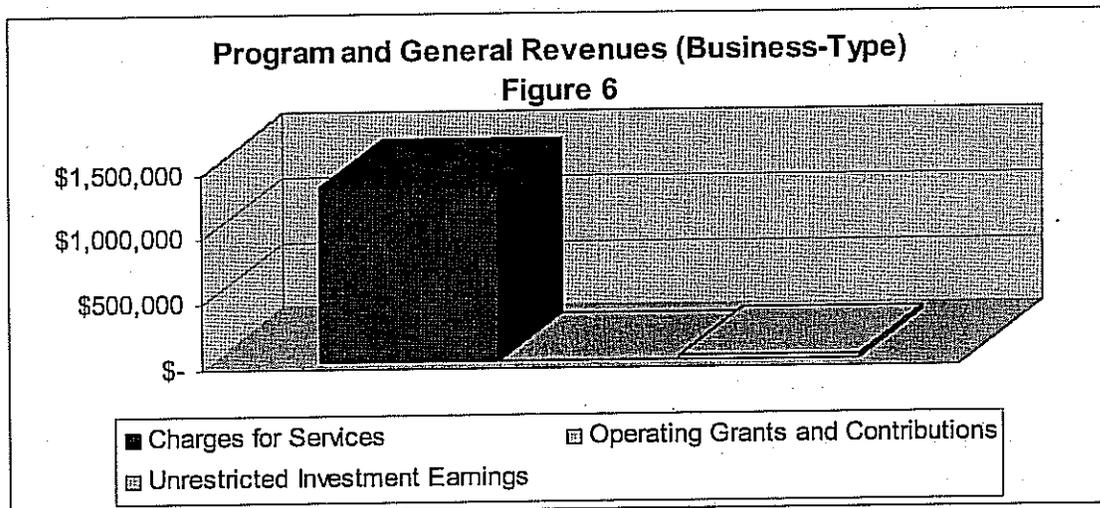
- Rising interest rates have increased interest income



For business-type activities, net assets increased by \$22,421 during the fiscal year. The chart located at Figure 7 represents the changes in net assets for both governmental and business-type activities for the fiscal year ended June 30, 2006.

Of this \$22,421 increase in net assets, (\$18,877) is assigned to the Landfill operations, while \$41,298 is designated as Water operations. This increase can be attributed to:

- An increase in water consumption
- An increase in signups
- Rising interest rates have increased interest income



**GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

**Gates County's Changes in Net Assets
Figure 7**

	Governmental		Governmental		Total	Total
	Activities	Activities	Business-type	Business-type		
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 488,586	\$ 50,754	\$ 1,347,124	\$ 1,099,138	\$ 1,835,710	\$ 1,149,892
Operating grants and contributions	1,846,814	1,942,225	-	-	1,846,814	1,942,225
Capital grants and contributions	748,250	297,391	-	-	748,250	297,391
General revenues:						
Property taxes	4,653,972	4,294,153	-	-	4,653,972	4,294,153
Local option sales tax	1,870,635	1,738,752	-	-	1,870,635	1,738,752
Other taxes	177,848	387,750	-	-	177,848	387,750
Grants and contributions not restricted to specific programs	66,057	61,129	-	-	66,057	61,129
Investment earnings, unrestricted	80,807	37,914	33,212	20,680	114,019	58,594
Other	65,587	119,550	-	-	65,587	119,550
Total revenues	<u>9,998,556</u>	<u>8,929,618</u>	<u>1,380,336</u>	<u>1,119,818</u>	<u>11,378,892</u>	<u>10,049,436</u>
Expenses:						
General government	1,121,314	966,888	-	-	1,121,314	966,888
Public safety	1,639,801	1,608,797	-	-	1,639,801	1,608,797
Environmental protection	206,881	302,920	-	-	206,881	302,920
Economic and physical development	1,169,946	790,464	-	-	1,169,946	790,464
Human services	2,233,851	2,025,921	-	-	2,233,851	2,025,921
Cultural and recreation	316,646	308,601	-	-	316,646	308,601
Education	2,544,425	2,317,295	-	-	2,544,425	2,317,295
Interest on long-term debt	145,700	160,003	-	-	145,700	160,003
Landfill	-	-	580,833	292,562	580,833	292,562
Water and sewer	-	-	777,082	744,801	777,082	744,801
Total expenses	<u>9,378,564</u>	<u>8,480,889</u>	<u>1,357,915</u>	<u>1,037,363</u>	<u>10,736,479</u>	<u>9,518,252</u>
Increase (decrease) in net assets before transfer	619,992	448,729	22,421	82,455	642,413	531,184
Transfers	-	68,000	-	(68,000)	-	-
Increase in net assets	619,992	516,729	22,421	14,455	642,413	531,184
Net assets, beginning	(341,996)	(858,725)	5,875,217	5,860,762	5,533,221	5,002,037
Net assets, ending	<u>\$ 277,996</u>	<u>\$ (341,996)</u>	<u>\$ 5,897,638</u>	<u>\$ 5,875,217</u>	<u>\$ 6,175,634</u>	<u>\$ 5,533,221</u>

**GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2006

Financial Analysis of the County's Funds

As previously noted, Gates County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of Gates County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Gates County's financing requirements. Specifically, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of Gates County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$581,619, while total fund balance reached \$1,944,283. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 6.26% of total General Fund expenditures. Total fund balance represents 20.93% of total General Fund expenditures.

At June 30, 2006, the governmental funds of Gates County reported a combined fund balance of \$1,839,274, a 17.68% decrease over last year. The primary reason for this decrease is the decrease in fund balance in the Other Governmental Funds due to construction on the Social Services Building. Of this amount, \$1,385,449 is reserved, with the remaining balance available for spending at the government's discretion.

General Fund Budgetary Highlights: During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increase revenues by \$764,055.

Proprietary Funds: Gates County's proprietary funds provide the same type of information found in the government-wide statements under business-type activities, but in more detail. Unrestricted net assets of the Landfill Fund at the end of the fiscal year amounted to \$28,079, and those for the Water Fund equaled \$1,580,168. The total change in net assets for both major funds was (\$18,877) and \$41,298 respectively for the landfill and water funds. Other factors concerning the finances of these funds have already been addressed in the discussion of Gates County's business-type activities.

**GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Capital Asset and Debt Administration

Capital assets: Gates County's capital assets for its governmental and business-type activities as of June 30, 2006, totals \$7,183,135 (net of accumulated depreciation). These assets include buildings, land, improvements, substations, lines and distribution systems, furniture and equipment, and vehicles.

Major capital asset transactions during the year include:

General Government

- Land for the construction of a new Department of Social Services Building
- Construction in Progress for a new Department of Social Services Building.

Public Safety

- One Chevy Impala patrol car purchased for the Sheriff's Department.
- One Chevy Silverado Truck purchased for the Sheriff's Department.
- One dispatch console for Emergency Management

Water Department

- One Ditch Witch Boring Machine and Trailer

**Gates County's Capital Assets
(Net of depreciation)**

Figure 8

	Governmental Activities 2006	Governmental Activities 2005	Business-type Activities 2006	Business-type Activities 2005	Total 2006	Total 2005
Land	\$ 290,237	\$ 95,737	\$ 27,476	\$ 27,476	\$ 317,713	\$ 123,213
Construction in Progress	104,575	-	-	-	104,575	-
Buildings	500,524	534,724	-	-	500,524	534,724
Plant and Distribution Systems	-	-	5,597,658	5,779,105	5,597,658	5,779,105
Other Improvements	37,090	13,438	-	-	37,090	13,438
Equipment	184,906	53,675	87,721	53,485	272,627	107,160
Vehicles and motorized equipment	288,814	257,503	64,134	82,351	352,948	339,854
Total	\$ 1,406,146	\$ 955,077	\$ 5,776,989	\$ 5,942,417	\$ 7,183,135	\$ 6,897,494

**GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Additional information on the County's capital assets can be found in note III.A.5 of the Basic Financial Statements.

Long-term Debt: As of June 30, 2006, Gates County had total debt outstanding of \$5,332,672. Of this total debt, \$ 3,692,795 is for school building projects completed years ago. Capital improvements to the water system completed years ago account for \$1,487,598 of this debt balance. The remaining long-term debt balance consists of \$152,279 in compensated absences.

**Gates County's Outstanding Debt
Installment Purchase Obligations**

Figure 9

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Installment Purchase Obligations	\$ 3,692,795	\$ 4,099,673	\$ 1,487,598	\$ 1,600,295	\$ 5,180,393	\$ 5,699,968

Gates County's total debt decreased by \$519,575 during the past fiscal year.

Additional information regarding Gates County's long-term debt can be found in note III.B.5 beginning on page 50 of the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the County.

- The County is enjoying a low unemployment rate of approximately 3.7% as of June 30, lower than the state average of 4.6%
- Retail activity continues to remain constant, with sales tax revenues continuing to come in over budgeted projections.

Budget Highlights for the Fiscal Year Ending June 30, 2007

Governmental Activities: Property taxes (benefiting from a rate increase) and revenues from permits and fees (also benefiting from a rate increase) are expected to lead the increase in revenue projections. The County will use these increases in revenues to finance programs currently in place, as well as finance upgrades to school buildings and other county government buildings.

**GATES COUNTY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Business – type Activities: Solid waste rates will increase by 44%, primarily to cover increasing costs of operations. Solid waste rates will increase so that the program can be fully self sufficient for the first time.

Requests for Information

This financial report is designed to provide a general overview of Gates County's finances for those with an interest in the government's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer or County Manager, Gates County, 202 Court Street, Gatesville, NC 27938.



BASIC FINANCIAL STATEMENTS

Gates County, North Carolina
Statement of Net Assets
 June 30, 2006

	Primary Government			Component Unit Gates County ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 1,515,129	\$ 1,570,937	\$ 3,086,066	\$ 106,168
Receivables (net)	1,441,752	134,597	1,576,349	-
Inventories	-	19,734	19,734	97,735
Prepaid items	-	-	-	967
Capital assets:				
Land, improvements, and construction in progress	394,812	27,476	422,288	4,345
Other capital assets, net of depreciation	1,011,334	5,749,513	6,760,847	18,374
Total capital assets	1,406,146	5,776,989	7,183,135	22,719
Total assets	4,363,027	7,502,257	11,865,284	227,589
LIABILITIES				
Accounts payable and accrued expenses	188,685	104,236	292,921	27,374
Unearned revenue	64,055	-	64,055	-
Long-term liabilities:				
Due within one year	438,376	118,322	556,698	-
Due in more than one year	3,393,915	1,382,061	4,775,976	-
Total liabilities	4,085,031	1,604,619	5,689,650	27,374
NET ASSETS				
Invested in capital assets, net of related debt	1,376,438	4,289,391	5,665,829	22,719
Unrestricted	(1,098,442)	1,608,247	509,805	177,496
Total net assets	\$ 277,996	\$ 5,897,638	\$ 6,175,634	\$ 200,215

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

Gates County, North Carolina
Statement of Activities
 June 30, 2006

	Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,121,314	\$ 106,103	\$ 55,211	\$ 99,793
Public safety	1,639,801	364,004	16,585	-
Environmental protection	206,881	-	74,982	-
Economic and physical development	1,169,946	18,479	530,473	364,032
Human services	2,233,851	-	1,169,563	-
Cultural and recreation	316,646	-	-	-
Education	2,544,425	-	-	284,425
Interest on long-term debt	145,700	-	-	-
Total governmental activities	9,378,564	488,586	1,846,814	748,250
Business-type activities:				
Landfill	580,833	560,528	-	-
Water and Sewer	777,082	786,596	-	-
Total business-type activities	1,357,915	1,347,124	-	-
Total primary government	\$ 10,543,979	\$ 1,835,710	\$ 1,846,814	\$ 748,250
Component units:				
ABC Board	\$ 351,284	\$ 351,552	\$ -	\$ -
Total component units	\$ 351,284	\$ 351,552	\$ -	\$ -

General revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes and licenses

Grants and contributions not restricted to specific programs

Investment earnings, unrestricted

Miscellaneous, unrestricted

Total general revenues

Change in net assets

Net assets-beginning

Net assets-ending

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

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>			<u>Component Unit</u>
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Gates County ABC Board</u>
\$ (860,207)	\$ -	\$ (860,207)	
(1,259,212)	-	(1,259,212)	
(131,899)	-	(131,899)	
(256,962)	-	(256,962)	
(1,064,288)	-	(1,064,288)	
(316,646)	-	(316,646)	
(2,260,000)	-	(2,260,000)	
(145,700)	-	(145,700)	
<u>(6,294,914)</u>	<u>-</u>	<u>(6,294,914)</u>	
-	(20,305)	(20,305)	
-	9,514	9,514	
-	(10,791)	(10,791)	
<u>(6,294,914)</u>	<u>(10,791)</u>	<u>(6,305,705)</u>	
			\$ <u>268</u>
			<u>268</u>
4,653,972	-	4,653,972	-
1,870,635	-	1,870,635	-
177,848	-	177,848	-
66,057	-	66,057	-
80,807	33,212	114,019	3,378
65,587	-	65,587	-
<u>6,914,906</u>	<u>33,212</u>	<u>6,948,118</u>	<u>3,378</u>
619,992	22,421	642,413	3,646
(341,996)	5,875,217	5,533,221	196,569
<u>\$ 277,996</u>	<u>\$ 5,897,638</u>	<u>\$ 6,175,634</u>	<u>\$ 200,215</u>

Gates County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,157,763	\$ 357,366	\$ 1,515,129
Receivables, net	1,358,108	83,644	1,441,752
Due from other funds	357,934	-	357,934
Total assets	\$ 2,873,805	\$ 441,010	\$ 3,314,815

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable and accrued liabilities	\$ 187,089	\$ 1,596	\$ 188,685
Due to other funds	-	357,934	357,934
Unearned revenue	64,055	-	64,055
Deferred revenue	678,378	-	678,378
Total liabilities	929,522	359,530	1,289,052

Fund balances:

Reserved for:

State statute	1,037,664	22,785	1,060,449
Subsequent year's budget	325,000	-	325,000
Unreserved	581,619	-	581,619
Unreserved, reported in nonmajor:			
Special revenue funds	-	355,770	355,770
Capital project funds	-	(297,075)	(297,075)
Total fund balances	1,944,283	81,480	1,839,274

Total liabilities and fund balances

\$ 2,687,316	\$ 441,010
---------------------	-------------------

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 therefore are not reported in the funds.	1,406,146
Liabilities for earned but deferred revenues in fund statements.	678,378
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 4).	(3,832,291)
Net assets of governmental activities	\$ 277,996

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

Gates County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 4,666,765	\$ -	\$ 4,666,765
Local option sales taxes	1,870,635	-	1,870,635
Other taxes and licenses	111,872	143,723	255,595
Unrestricted intergovernmental	63,557	-	63,557
Restricted intergovernmental	2,134,581	582,381	2,716,962
Permits and fees	149,849	-	149,849
Sales and services	91,953	-	91,953
Investment earnings	68,188	12,619	80,807
Miscellaneous	112,726	-	112,726
Total revenues	<u>9,270,126</u>	<u>738,723</u>	<u>10,008,849</u>
EXPENDITURES			
Current:			
General government	1,235,703	-	1,235,703
Public safety	1,361,119	279,615	1,640,734
Environmental protection	203,750	-	203,750
Economic and physical development	843,169	364,032	1,207,201
Human services	2,234,748	297,075	2,531,823
Cultural and recreational	303,646	-	303,646
Intergovernmental:			
Education	2,544,425	-	2,544,425
Debt service:			
Principal	417,557	-	417,557
Interest	145,170	-	145,170
Total expenditures	<u>9,289,287</u>	<u>940,722</u>	<u>10,230,009</u>
Excess (deficiency) of revenues over expenditures	<u>(19,161)</u>	<u>(201,999)</u>	<u>(221,160)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from (to) other funds	(40,000)	40,000	-
Transfer from component unit	2,500	-	2,500
Installment purchase proceeds	10,149	-	10,149
Total other financing sources and uses	<u>(27,351)</u>	<u>40,000</u>	<u>12,649</u>
Net change in fund balance	(46,512)	(161,999)	(208,511)
Fund balances-beginning	1,990,795	243,479	2,234,274
Fund balances-ending	<u>\$ 1,944,283</u>	<u>\$ 81,480</u>	<u>\$ 2,025,763</u>

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

Gates County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2006

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

Net changes in fund balances - total governmental funds	\$ (208,511)
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	451,069
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	(12,793)
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 transaction 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.	406,878
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.	<u>(16,651)</u>
Total changes in net assets of governmental activities	<u><u>\$ 619,992</u></u>

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

Gates County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 4,293,914	\$ 4,284,714	\$ 4,666,765	\$ 382,051
Local option sales tax	1,793,700	1,793,700	1,870,635	(109,554)
Other taxes and licenses	46,700	88,443	111,872	23,429
Unrestricted intergovernmental	60,671	60,671	63,557	2,886
Restricted intergovernmental	1,649,098	2,353,180	2,134,581	(218,599)
Permits and fees	140,700	140,700	149,849	9,149
Sales and services	98,176	98,176	91,953	(6,223)
Investment earnings	27,600	25,000	68,188	43,188
Miscellaneous	54,103	84,133	112,726	28,593
Total revenues	<u>8,164,662</u>	<u>8,928,717</u>	<u>9,270,126</u>	<u>341,409</u>
Expenditures				
Current:				
General government	1,085,344	1,375,736	1,235,703	140,033
Public safety	1,284,665	1,440,345	1,361,119	79,226
Environmental protection	190,452	208,795	203,750	5,045
Economic and physical development	687,393	969,972	843,169	126,803
Human services	2,195,847	2,317,584	2,234,748	82,836
Cultural and recreational	305,945	305,945	303,646	2,299
Intergovernmental:				
Education	2,344,500	2,545,000	2,544,425	575
Debt service:				
Principal retirement	417,560	417,560	417,557	3
Interest and other charges	145,170	145,170	145,170	-
Total expenditures	<u>8,656,876</u>	<u>9,726,107</u>	<u>9,289,287</u>	<u>436,820</u>
Revenues over (under) expenditures	<u>(492,214)</u>	<u>(797,390)</u>	<u>(19,161)</u>	<u>778,229</u>
Other financing sources (uses):				
Transfers to other funds	(40,000)	(40,000)	(40,000)	-
Transfers from component unit	1,600	1,600	2,500	900
Installment purchase proceeds	-	10,149	10,149	-
Sale of assets	7,077	7,077	-	(7,077)
Total other financing sources (uses)	<u>(31,323)</u>	<u>(21,174)</u>	<u>(27,351)</u>	<u>(6,177)</u>

(continued)

Gates County, North Carolina
**Statement of Revenues, Expenditures, and Changes in Fund Balances -
 Budget and Actual - General Fund**
 For the Fiscal Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Fund balance appropriated	523,537	818,564	-	(818,564)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(46,512)	<u>\$ (46,512)</u>
Fund balances:				
Beginning of year, July 1			<u>1,990,795</u>	
End of year, June 30			<u>\$ 1,944,283</u>	

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

Gates County, North Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Enterprise Funds		
	Landfill Fund	Water Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 62,263	\$ 1,508,674	\$ 1,570,937
Receivables, net	68,737	65,860	134,597
Inventories	-	19,734	19,734
Total current assets	<u>131,000</u>	<u>1,594,268</u>	<u>1,725,268</u>
Capital assets:			
Land, improvements, and construction in progress	-	27,476	27,476
Other capital assets, net of depreciation	-	5,749,513	5,749,513
Total capital assets	<u>-</u>	<u>5,776,989</u>	<u>5,776,989</u>
Total assets	<u>\$ 131,000</u>	<u>\$ 7,371,257</u>	<u>\$ 7,502,257</u>
LIABILITIES			
Current liabilities:			
Accounts payable	102,921	1,315	104,236
General obligation bonds payable	-	118,322	118,322
Total current liabilities	<u>102,921</u>	<u>119,637</u>	<u>222,558</u>
Noncurrent liabilities:			
Compensated absences	-	12,785	12,785
General obligation bonds payable	-	1,369,276	1,369,276
Total noncurrent liabilities	<u>-</u>	<u>1,382,061</u>	<u>1,382,061</u>
Total liabilities	<u>102,921</u>	<u>1,501,698</u>	<u>1,604,619</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	4,289,391	4,289,391
Unrestricted	28,079	1,580,168	1,608,247
Total net assets	<u>\$ 28,079</u>	<u>\$ 5,869,559</u>	<u>\$ 5,897,638</u>

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

Gates County, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Enterprise Funds		
	Landfill Fund	Water Fund	Total
OPERATING REVENUES			
Charges for services	\$ 560,528	\$ 682,887	\$ 1,243,415
Water and sewer taps	-	99,438	99,438
Miscellaneous	-	263	263
Total operating revenues	560,528	782,588	1,343,116
OPERATING EXPENSES			
Administration	-	126,875	126,875
Water treatment, pump station and distribution	-	360,976	360,976
Landfill operations	580,833	-	580,833
Depreciation	-	211,709	211,709
Total operating expenses	580,833	699,560	1,280,393
Operating income (loss)	(20,305)	83,028	62,723
NONOPERATING REVENUES (EXPENSES)			
Interest and investment revenue	1,428	31,784	33,212
Interest expense	-	(77,522)	(77,522)
Tax refunds	-	4,008	4,008
Total nonoperating revenue (expenses)	1,428	(41,730)	(40,302)
Change in net assets	(18,877)	41,298	22,421
Total net assets - beginning	46,956	5,828,261	5,875,217
Total net assets - ending	\$ 28,079	\$ 5,869,559	\$ 5,897,638

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

Gates County, North Carolina
Statement of Cash Flows
Enterprise Fund
For the Fiscal Year Ended June 30, 2006

	Landfill Fund	Water Fund	Totals June 30, 2006
Cash flows from operating activities:			
Cash received from customers	\$ 558,305	\$ 780,467	\$ 1,338,772
Cash paid for goods and services	(504,704)	(334,026)	(838,730)
Cash paid to employees for services	-	(156,593)	(156,593)
Other operating revenue	-	263	263
Net cash provided by operating activities	<u>53,601</u>	<u>290,111</u>	<u>343,712</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	-	(46,280)	(46,280)
Principal paid on bond maturities and equipment contracts	-	(112,697)	(112,697)
Interest paid on bond maturities and equipment contracts	-	(77,521)	(77,521)
Net cash used by capital and related financing activities	<u>-</u>	<u>(236,498)</u>	<u>(236,498)</u>
Cash flows from noncapital and related financing activities:			
Tax refunds	-	4,008	4,008
Cash flows from investing activities:			
Interest on investments	<u>1,428</u>	<u>31,784</u>	<u>33,212</u>
Net increase (decrease) in cash and cash equivalents	55,029	89,405	144,434
Cash and cash equivalents, July 1	7,234	1,419,269	1,426,503
Cash and cash equivalents, June 30	<u>\$ 62,263</u>	<u>\$ 1,508,674</u>	<u>\$ 1,570,937</u>

(continued)

Gates County, North Carolina
Statement of Cash Flows
Enterprise Fund
For the Fiscal Year Ended June 30, 2006

	Landfill Fund	Water Fund	Totals June 30, 2006
			(continued)
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (20,305)	\$ 83,028	\$ 62,723
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	-	211,709	211,709
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(2,223)	(1,858)	(4,081)
(Increase) decrease in inventory	-	4,869	4,869
Increase (decrease) in accounts payable and accrued liabilities	76,129	(7,904)	68,225
Increase in accrued vacation pay	-	267	267
Total adjustments	73,906	207,083	280,989
Net cash provided by operating activities	\$ 53,601	\$ 290,111	\$ 343,712

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

Gates County, North Carolina
Statement of Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2006

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 2,907</u>
Liabilities and Net Assets	
Liabilities:	
Miscellaneous liabilities	<u>\$ 2,907</u>

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

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

I. Summary of Significant Accounting Policies

The accounting policies of Gates County and its component unit 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 County, which is governed by a five-member board of commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute 153A-10. As required by generally accepted accounting principles, these financial statements present the County and its component units, legally separate entities for which the County is financially accountable. The Gates County ABC Board, which has a June 30 year-end, is presented as if it is a separate proprietary fund of the County (discrete presentation).

Gates County ABC Board

The members of the ABC Board's governing board are appointed by the County. The ABC Board is required by State statute to distribute its surpluses to the General Fund of the County.

Complete financial statements for the component unit may be obtained at the administrative office of the entity.

Gates County Board of Alcoholic Control
Sunbury, NC 27979

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, 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 County and for each function of the County'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, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*,

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

proprietary, and fiduciary – 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, result from non-exchange transactions. Other nonoperating revenues are ancillary activities such as investment earnings.

The County reported the following major governmental fund:

General Fund. This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The County reports the following non-major governmental funds:

Revaluation Fund Special Revenue Fund. This fund is used to accumulate funds for the County's tax revaluation.

Emergency Telephone System Special Revenue Fund. This fund is used to account for the fees charged to telephone customers to fund the 911 system.

Grant Project Special Revenue Fund. This fund is used to account for grant funds that are restricted for use for a particular purpose.

Fire Protection Special Revenue Fund. This fund is used to accumulate fire district taxes and disburse taxes to fire districts.

The County reports the following major enterprise funds:

Landfill Fund. This fund is used to account for the operations of the County's solid waste activities.

Water and Sewer Fund. This fund is used to account for the County's water and sewer operations.

The County reports the following fund types:

Agency Funds. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following Agency Funds: the Social Services Fund, which accounts for moneys deposited with the Department of Social Services for the benefit of certain individuals and the three percent interest on the first month of delinquent motor vehicle taxes that the County is required to remit to the North Carolina Department of Motor Vehicles.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the County are maintained during the year using the modified accrual 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, except for

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

the agency funds which have no measurement focus. The government-wide, proprietary fund and fiduciary fund financial statements are reported using 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 County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County enterprise funds are charges to customers for sales and services. The County also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgements, and compensated absences, which are recognized as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The County considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Gates County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County. For motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2005 through February 2006 apply to the fiscal year ended June 30, 2006. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements. For motor vehicles that are renewed and billed under the annual system, taxes are due on May 1 of each year and the uncollected taxes are reported as a receivable on the financial statements offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for renewal vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2006 because they are intended to finance the County's operations during the 2007 fiscal year.

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
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Sales taxes collected and held by the State at year-end on behalf of the County are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block 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 County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the County 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 County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Emergency Telephone, Fire Protection and Revaluation Special Revenue Funds, and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Grant Project Fund and the Capital Reserve Fund, which is a special revenue fund type. 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 and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$5,000. The governing board must approve all amendments. 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. Deposits and Investments

All deposits of the County and Gates County ABC Board are made in board-designated official depositories and are secured as required by G.S. 159-31. The County and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the County and the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the County and the ABC 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).

The County and the ABC Board's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices.

Gates County, North Carolina
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The securities of the NCCMT Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings investment contracts are reported at cost.

2. Cash and Cash Equivalents

The County pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. Gates County ABC Board considers demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

3. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on July 1, the beginning of the fiscal year. The taxes are due on September 1; however, penalties and interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2005.

4. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

5. Inventory

The inventories of the County and the ABC Board are valued at cost (first-in, first-out), which approximates market. The inventory of the County's enterprise funds as well as those of the ABC Board consist of materials and supplies held for consumption. The cost of the inventory carried in the County's enterprise funds and that of the ABC Board is recorded as an expense as it is consumed.

6. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization costs are as follows: land, \$2,500; buildings, improvements, substations, lines, and other plant and distribution systems, \$2,500; infrastructure, \$2,500; furniture and equipment, \$2,500; and vehicles, \$2,500. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the County are depreciated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and Improvement	40
Furniture and equipment	20
Vehicles	10

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
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Capital assets of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

	<u>Years</u>
Buildings and improvements	10-25
Furniture and equipment	3-25

7. Long-term Obligations

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as an other financing source.

8. Compensated Absences

The vacation policies of the County and the ABC Board provide for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the County's government-wide and proprietary funds, and the ABC Board, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

The sick leave policies of the County and the ABC Board provide 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 none of the entities have any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made by the County or its component unit.

9. Net Assets

Net assets in 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 laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
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Reserved

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables that are not offset by deferred revenues.

Unreserved

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2006-2007 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

F. 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 a reconciliation between fund balance – total governmental funds and net assets – governmental activities are reported in the government-wide statements of net assets. The net adjustment of \$(1,747,767) consists of several elements as follows:

Description	Amount
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds	\$ 1,406,146
Liabilities for revenue deferred but earned and therefore reported in the fund statements but not the government-wide liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements.	678,378
Installment financing	(3,692,795)
Compensated absences	(139,496)
Total adjustment	\$ (1,747,767)

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 a 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 \$828,503 as follows:

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
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Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 590,113
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.	(139,044)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities – it affects only the government-wide statement of net assets	(10,149)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements.	417,027
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.	(16,651)
Revenues reported in the statement of activities that do not provide current resources and are not recorded as revenues in the fund statements.	
Reversal of deferred tax revenue recorded at 7/1/05	(691,171)
Recording of tax receipts deferred in the fund statements at 6/30/06	678,378
	\$ 828,503

II. Stewardship, Compliance, and Accountability

A. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2006, expenditures made in the Landfill Fund and the Fire Protection Fund exceeded authorized appropriations made by the governing board.

B. Deficit Fund Balance

The capital projects fund for the construction of a new DSS building has a deficit fund balance of \$297,075 at June 30, 2006. This will be remedied in the next fiscal year with loan proceeds.

III. Detail Notes on All Funds

A. Assets

1. Deposits

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
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All of the County's and the ABC 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 County's or the ABC Board's agents in these units' names. 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 for the County and the ABC Board, these deposits are considered to be held by their agents in the entities' names. 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 County or the ABC Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County or the ABC 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 County has no policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The County complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly insured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2006, the County's deposits had a carrying amount of \$1,807,297 and a bank balance of \$2,107,133. Of the bank balance, \$100,000 was covered by federal depository insurance and \$2,007,133 in interest bearing deposits were covered by collateral held under the Pooling Method. At June 30, 2006, the carrying amount of deposits for Gates County ABC Board was \$105,068 and the bank balance was \$106,197. All of the bank balance was covered by federal depository insurance.

2. Investments

At June 30, 2006, the County's investment balances were as follows:

Investment Type	Fair Value	Maturity	Rating
North Carolina Capital Management Trust			
Cash portfolio	\$ 799,349	N/A	AAAm
Term portfolio	481,678	0.8 years	Unrated
Total investments	<u>\$ 1,281,027</u>		

Interest Rate Risk. The County does not have a formal investment policy that limits investment securities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The County has no formal policy regarding credit risk. The County's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2006. The County's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
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3. Property Tax – Use-Value Assessment on Certain Lands

In accordance with the general statutes, agriculture, horticulture, and forestland may be taxed by the County at present-use value as opposed to market value. When the property loses its eligibility for use-value taxation, the property tax is recomputed at market value for the current year and the three preceding fiscal years, along with accrued interest from the original due date. This tax is immediately due and payable. The following are property taxes that could become due if present use-value eligibility is lost. These amounts have not been recorded in the financial statements.

Year Levied	General Fund		Total
	Tax	Interest	
2003	\$ 248,502	\$ 59,640	\$ 308,142
2004	248,385	37,258	285,643
2005	248,363	14,902	263,265
Total	<u>\$ 745,250</u>	<u>\$ 111,800</u>	<u>\$ 857,050</u>

4. Receivables

Receivables at the government-wide level at June 30, 2006, were as follows:

	Accounts	Taxes	Due from Other		Total
			Governments	Other	
Governmental Activities:					
General	\$ 183,020	\$ 761,578	\$ 494,974	\$ 1,736	\$ 1,441,308
Other Governmental	83,644	-	-	-	83,644
Total receivables	266,664	761,578	494,974	1,736	1,524,952
Allowance for doubtful accounts	-	(83,200)	-	-	(83,200)
Total-governmental activities	<u>\$ 266,664</u>	<u>\$ 678,378</u>	<u>\$ 494,974</u>	<u>\$ 1,736</u>	<u>\$ 1,441,752</u>
Business-type Activities					
Landfill	\$ 68,737	\$ -	\$ -	\$ -	\$ 68,737
Water and Sewer	72,993	-	-	147	73,140
Total receivables	141,730	-	-	147	141,877
Allowances for doubtful accounts	(7,280)	-	-	-	(7,280)
Total - business-type activities	<u>\$ 134,450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147</u>	<u>\$ 134,597</u>

The due from other governments that is owed to the County consists of the following:

Local option sales tax	\$487,098
White goods disposal tax	4,676
Scrap tire tax	<u>3,200</u>
Total	<u>\$494,974</u>

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 95,737	\$ 194,500	\$ -	\$ 290,237
Construction in progress	-	104,575	-	104,575
Total capital assets not being depreciated	<u>95,737</u>	<u>299,075</u>	<u>-</u>	<u>394,812</u>
Capital assets being depreciated:				
Buildings	1,606,980	-	-	1,606,980
Other improvements	25,744	25,775	-	51,519
Equipment	186,738	145,872	-	332,610
Vehicles and motorized equipment	529,428	119,391	-	648,819
Total capital assets being depreciated	<u>2,348,890</u>	<u>590,113</u>	<u>-</u>	<u>2,639,928</u>
Less accumulated depreciation for:				
Buildings	1,072,256	34,200	-	1,106,456
Other improvements	12,306	2,123	-	14,429
Equipment	133,063	14,641	-	147,704
Vehicles and motorized equipment	271,925	88,080	-	360,005
Total accumulated depreciation	<u>1,489,550</u>	<u>\$ 139,044</u>	<u>\$ -</u>	<u>1,628,594</u>
Total capital assets being depreciated, net	<u>859,340</u>			<u>1,011,334</u>
Governmental activity capital assets, net	\$ <u>955,077</u>			\$ <u>1,406,146</u>

Primary Government

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 25,267
Public safety	37,107
Human services	3,397
Environmental protection	3,131
Economic and physical development	57,142
Cultural and recreational	13,000
Total depreciation expense	<u>\$ 139,044</u>

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water Fund				
Capital assets not being depreciated:				
Land	\$ 27,476	\$ -	\$ -	\$ 27,476
Capital assets being depreciated:				
Plant and distribution systems	9,072,355	-	-	9,072,355
Furniture and maintenance equipment	225,724	46,281	-	272,005
Vehicles	174,158	-	-	174,158
Total capital assets being depreciated	<u>9,472,237</u>	<u>46,281</u>	<u>-</u>	<u>9,518,518</u>
Less accumulated depreciation for:				
Plant and distribution systems	3,293,250	181,447	-	3,474,697
Furniture and maintenance equipment	172,239	12,045	-	184,284
Vehicles	91,807	18,217	-	110,024
Total accumulated depreciation	<u>3,557,298</u>	<u>\$ 211,709</u>	<u>\$ -</u>	<u>3,769,005</u>
Total capital assets being depreciated, net	<u>5,914,941</u>			<u>5,749,513</u>
Water Fund capital assets, net	<u>\$ 5,942,417</u>			<u>\$ 5,776,989</u>

Construction commitments

The government has active construction projects as of June 30, 2006. These projects include the Grant Project Fund and the DSS Construction Project. At June 30, 2006, the governments commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Grant project fund	\$ 364,032	\$ 35,968
DSS construction project	297,075	1,504,255
Total	<u>\$ 661,107</u>	<u>\$ 1,540,223</u>

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2006, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 4,345	\$ -	\$ -	\$ 4,345
Capital assets being depreciated:				
Buildings and improvements	57,789	-	-	57,789
Furniture, fixtures and equipment	44,483	-	-	44,483
Total capital assets being depreciated	<u>102,272</u>	<u>-</u>	<u>-</u>	<u>102,272</u>
Less accumulated depreciation for:				
Buildings and improvements	53,695	234	-	53,929
Furniture, fixtures and equipment	26,781	3,188	-	29,969
Total accumulated depreciation	<u>80,476</u>	<u>\$ 3,422</u>	<u>\$ -</u>	<u>83,898</u>
Total capital assets being depreciated, net	<u>21,796</u>			<u>18,374</u>
ABC capital assets, net	<u>\$ 26,141</u>			<u>\$ 22,719</u>

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2006, were as follows:

	Vendors
Governmental Activities:	
General	\$ 187,089
Other Governmental	1,596
Total - governmental activities	\$ 188,685
Business-type Activities:	
Landfill	\$ 102,921
Water	1,315
Total - business-type activities	\$ 104,236

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. Gates County and the ABC Board contribute to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental 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 LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The County and the ABC Board are required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.91% and 4.78%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees is 5.19% of annual covered payroll. The contribution requirements of members and of Gates County and the ABC Board are established and may be amended by the North Carolina General Assembly. The County's contributions to LGERS for the years ended June 30, 2006, 2005, and 2004 were \$93,161, \$88,948, and \$79,020 respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2006, 2005, and 2004 were \$1,793, \$1,803, and \$1,913, respectively. The contributions made by the County and the ABC Board equaled the required contributions for each year.

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2006

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description.*

Gates County administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time County law enforcement officers are covered by the Separation Allowance. At June 30, 2006, the Separation Allowance's membership consisted of:

Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	9
Total	<hr style="width: 100%;"/> 9

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

Basis of Accounting. Gates County has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The County contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the County. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 requires the County to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2006 were \$15,111, which consisted of \$14,511 from the County and \$600 from the law enforcement officers.

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
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d. Registers of Deeds' Supplemental Pension Fund

Plan Description. Gates County also contributes to the Registers of Deeds' Supplemental Pension Fund (Fund), a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any county register of deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. On a monthly basis, the County remits to the Department of State Treasurer an amount equal to four and one-half percent (4.5%) of the monthly receipts collected pursuant to Article 1 of G.S. 161. Immediately following January 1 of each year, the Department of State Treasurer divides ninety-three percent (93%) of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Fund's assets may be used by the State Treasurer in administering the Fund. For the fiscal year ended June 30, 2006, the County's required and actual contributions were \$3,113.

e. Other Post-employment Benefits

According to a County resolution, the County provides post-retirement health care benefits to retirees of the County, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the County. The County pays the full cost of coverage for these benefits. Also, the County's retirees can purchase coverage for their dependents at the County's group rates. Currently 3 retirees are eligible for post-retirement health benefits. For the fiscal year ended June 30, 2006, the County made payments for post-retirement health benefit premiums of \$13,508. The County obtains health care coverage through private insurers.

The County has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement system (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The County has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. For the fiscal year ended June 30, 2006 the County made contributions to the State for death benefits of \$2,261. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .14% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

3. Deferred / Unearned Revenues

The balance in deferred or unearned revenue on the fund statements and unearned revenues on the government-wide statements at year-end is composed of the following elements:

	Unearned or Deferred Revenue	Full Accrual Unearned Revenue
Prepaid taxes not yet earned (General)	\$ -	\$ 64,055
Taxes receivable, net (General))	678,378	-
Total	\$ 678,378	\$ 64,055

4. Risk Management

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in two self-funded risk financing pools administered by the North Carolina Association of County Commissioners. Through these pools, the County obtains property coverage equal to replacement cost values of owned property subject to a limit of \$125.5 million for any one occurrence, general liability coverage of \$2 million per occurrence, and workers' compensation coverage up to the statutory limits. The pools are reinsured through commercial companies for single occurrence losses in excess of \$500,000 up to a \$2 million limit for general liability coverage, \$500,000 of aggregate annual losses in excess of \$25,000 per occurrence for property coverage, and single occurrence losses of \$350,000 for workers' compensation.

The County carries flood insurance through the NCACC Liability and Property Pool. Because the County is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the County is eligible to purchase coverage of \$25,000 per structure for each occurrence.

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

Gates County ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Board has property, general liability, auto liability, workers' compensation, and employee health coverage. The Board also has liquor legal liability coverage. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

5. Long-Term Obligations

a. Installment Purchase

Serviced by Water Fund

As authorized by State law (G.S. 160A-20 and 153A-158.1), the County entered into a note agreement for financing the expansion of the County water treatment plant, construction of a new water storage tank, and the construction and extension of water mains and lines. The installment purchase was executed on June 12, 2001 with an annual interest rate of 4.93% and is secured by a

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

deed of trust. The transaction requires thirty semiannual payments of principal and interest in the amount of \$95,110 each.

Serviced by General Fund

\$6,000,000 installment purchase loan secured by deed of trust on Gates County High School property was refinanced July 30, 2003 and an additional \$600,000 was borrowed for additional classrooms. The new loan calls for semi-annual installments of \$281,363.11 including interest at 3.65% through July 30, 2013.

On January 13, 2006, the County entered into an installment purchase obligation for the purchase of automated equipment for the Register of Deeds department. The obligation calls for 5 annual installments of \$6,752 with interest at 4.42%. The obligation matures January 2011.

For Gates County, the future minimum payments as of June 30, 2006, including \$561,413 of interest, for governmental activities and \$414,602 of interest in business type activities are:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 438,376	\$ 131,103	\$ 118,322	\$ 71,898
2008	454,563	114,916	124,227	65,993
2009	471,348	98,131	130,427	59,793
2010	488,753	80,726	136,936	53,284
2011	506,801	62,677	143,770	46,450
2012-2016	1,332,954	73,860	833,916	117,184
Total	<u>\$ 3,692,795</u>	<u>\$ 561,413</u>	<u>\$ 1,487,598</u>	<u>\$ 414,602</u>

At June 30, 2006, Gates County, North Carolina had a legal debt margin of \$38,141,947.

b. Long-Term Obligation Activity

The following is a summary of changes in the County's long-term obligations for the fiscal year ended June 30, 2006:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Current Portion of Balance
Governmental activities:					
Installment purchase obligations	\$ 4,099,673	\$ 10,149	\$ 417,027	\$ 3,692,795	\$ 438,376
Compensated absences	122,845	16,651	-	139,496	-
Total governmental activities	<u>\$ 4,222,518</u>	<u>\$ 26,800</u>	<u>\$ 417,027</u>	<u>\$ 3,832,291</u>	<u>\$ 438,376</u>
Business-type activities:					
Installment purchase obligation	\$ 1,600,295	\$ -	\$ 112,697	\$ 1,487,598	\$ 118,322
Compensated absences	12,516	267	-	12,783	-
Total business-type activities	<u>\$ 1,612,811</u>	<u>\$ 267</u>	<u>\$ 112,697</u>	<u>\$ 1,500,381</u>	<u>\$ 118,322</u>

Compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employers are taking time as it is earned.

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2006

C. Interfund Balances and Activity

Transfers to/from other funds

Transfers to/from other funds at June 30, 2006 consists of the following:

From the General Fund to the Revaluation Fund to accumulate resources for the octennial revaluation of real property	\$ 20,000
From the General Fund to the Capital Reserve Fund to accumulate resources for renovations	20,000
Total	<u>\$ 40,000</u>

IV. Joint Ventures

The County also participated in a joint venture to operate Perquimans Chowan Gates Regional Landfill with two other counties. Each participating government appoints their county manager and two commissioners to the nine member board of the Landfill. Although the landfill is no longer accepting solid waste, the site will continue to be used as a waste transfer station. Gates County will continue to pay 22% of the site's operating cost and 33% of any capital outlay required. In accordance with the intergovernmental agreement between the participating governments, the County paid \$580,833 for operating costs. The PPCC District Health Department acts as fiscal agent for the landfill.

The County also participates in a joint venture to operate Albemarle Regional Library which serves a four county district. Gates County appoints three members to the ten member district library board. The County has an ongoing financial responsibility for the joint venture because the Library's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the Library, so no equity interest has been reflected in the financial statements at June 30, 2006. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$86,123 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library's office on Tryon Street, Winton, NC 27986.

The County also participated in a joint venture to operate Albemarle Regional Health Services with seven other counties. The area Board of Commissioners appoints the fifteen member governing board. The County has an ongoing financial responsibility for Albemarle Regional Health Services because the County is required by State statute to provide public health services either directly or jointly with other counties. Neither of the participating governments have any equity interest in Albemarle Regional Health Services so no equity interest has been reflected in the financial statements at June 30, 2006. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$104,000 to the Albemarle Regional Health Services to supplement its activities. Complete financial statements for the Albemarle Regional Health Services can be obtained from their office at Post Office Box 189, Elizabeth City, North Carolina 27909.

Gates County, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2006

The County also participates in a joint venture to operate Roanoke-Chowan Human Services Center that serves a four county mental health district. Gates County appoints four members to the twenty-four member board of the mental health district. The County has an ongoing financial responsibility for the joint venture because the center's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the center so no equity interest has been reflected in the financial statements at June 30, 2006. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$37,703 to the center to supplement its activities. Complete financial statements for the center can be obtained from the center's office at Route 3, Box 22-A, Ahoskie, NC 27910.

V. Jointly Governed Organization

The County, in conjunction with nine other counties and sixteen municipalities, established Albemarle Commission. The participating governments established the Commission to coordinate various funding received from federal and State agencies. Each participating government appoints four members and each participating municipality appoints two members to the Commission's governing board. The County paid membership fees of \$6,500 to the Commission during the fiscal year ended June 30, 2006.

VI. Benefit Payments Issued by the State

The amounts listed below were paid directly to individual recipients by the State from federal and State moneys. County personnel are involved with certain functions, primarily eligibility determinations, that cause benefit payments to be issued by the State. These amounts disclose this additional aid to County recipients that do not appear in the basic financial statements because they are not revenues and expenditures of the County.

	<u>Federal</u>	<u>State</u>
Medicaid	\$ 7,343,449	\$ 3,571,494
Food Stamp Program	1,103,484	-
TANF	91,038	-
Domiciliary Care	-	110,455
Energy Assistance	15,258	-
Title IV-E	2,973	853

VII. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The County 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.

Gates County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ -	\$ 4,516,817	\$ -
Penalties and interest	-	149,948	-
Total	4,284,714	4,666,765	382,051
Local option sales taxes:			
Article 39	-	370,705	-
Article 40 one - half of one percent	-	584,688	-
Article 42 one - half of one percent	-	583,668	-
Article 44	-	331,574	-
Total	1,793,700	1,870,635	76,935
Other taxes and licenses:			
Tax refunds	-	44,657	-
Deed stamp excise tax	-	34,045	-
Scrap tire disposal tax	-	14,566	-
White goods disposal tax	-	18,524	-
Privilege licenses	-	80	-
Total	88,443	111,872	23,429
Unrestricted intergovernmental:			
Payments in lieu of taxes	-	16,283	-
Beer and wine tax	-	47,274	-
Total	60,671	63,557	2,886
Restricted intergovernmental:			
Department of Transportation	-	168,733	-
Support our students	-	73,830	-
School age child care	-	38,328	-
New Choices	-	18,000	-
CBA Genesis	-	29,013	-
Divorce fees	-	26,456	-
ROAP	-	68,553	-
Duke endowment	-	-	-
United Way	-	4,914	-
Smart Start	-	34,000	-
HCCBG grant	-	21,864	-
Life Smarts	-	3,996	-
HAVA grant	-	99,793	-
Making a job	-	42,336	-
Public School Building Capital Fund	-	284,425	-

(cont.)

Gates County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Juvenile Crime Prevention	-	-	-
Social service grants	-	678,012	-
Workforce Youth Development	-	450	-
Distribution from Hertford-Gates			
Health Department	-	1,990	-
Soil conservation grant	-	21,892	-
Day care grants	-	330,576	-
Emergency Management	-	-	-
Court facilities fees	-	28,435	-
ABC bottle tax	-	1,856	-
Other federal and state grants	-	157,129	-
Total	<u>2,353,180</u>	<u>2,134,581</u>	<u>(218,599)</u>
Permits and fees:			
Building permits	-	89,134	-
Register of deeds	-	60,715	-
Total	<u>140,700</u>	<u>149,849</u>	<u>9,149</u>
Sales and services:			
Transportation fares	-	18,479	-
Rents, concessions, and fees	-	45,388	-
Jail fees	-	28,086	-
Total	<u>98,176</u>	<u>91,953</u>	<u>(6,223)</u>
Investment earnings	<u>25,000</u>	<u>68,188</u>	<u>43,188</u>
Miscellaneous:			
Administrative expense reimbursement	-	55,211	-
Insurance reimbursement	-	16,585	-
Other	-	40,930	-
Total	<u>84,133</u>	<u>112,726</u>	<u>28,593</u>
Total revenues	<u>8,928,717</u>	<u>9,270,126</u>	<u>341,409</u>
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits	-	56,993	-
Operating expenses	-	80,417	-
Total	<u>154,006</u>	<u>137,410</u>	<u>16,596</u>

(cont.)

Gates County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Administration:			
Salaries and employee benefits	-	216,703	-
Operating expenses	-	26,301	-
Total	252,631	243,004	9,627
Elections:			
Salaries and employee benefits	-	14,000	-
Operating expenses	-	51,341	-
Capital outlay	-	105,170	-
Total	218,387	170,511	47,876
Taxes:			
Salaries and employee benefits	-	146,892	-
Operating expenses	-	131,836	-
Capital outlay	-	6,364	-
Total	289,780	285,092	4,688
Legal:			
Contracted services	11,440	5,693	5,747
Register of deeds:			
Salaries and employee benefits	-	79,567	-
Operating expenses	-	17,310	-
Capital outlay	-	11,973	-
Total	115,002	108,850	6,152
Public buildings:			
Salaries and employee benefits	-	57,080	-
Operating expenses	-	202,778	-
Capital outlay	-	14,825	-
Total	324,000	274,683	49,317
Court facilities:			
Operating expenses	10,490	10,460	30
Total general government	1,375,736	1,235,703	140,033
Public safety:			
Sheriff and communications:			
Salaries and employee benefits	-	584,160	-
Operating expenses	-	132,091	-
Capital outlay	-	50,642	-
Total	792,448	766,893	25,555

Gates County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Jail:			
Other operating expenditures	227,000	232,611	(5,611)
Emergency management:			
Salaries and employee benefits	-	5,284	-
Operating expenses	-	50,689	-
Total	77,118	55,973	21,145
Fire:			
Forest fire protection	51,727	35,416	16,311
Rescue squad:			
Allocation	8,000	8,000	-
Building inspector:			
Salaries and employee benefits	-	166,831	-
Operating expenses	-	37,777	-
Total	219,985	204,608	15,377
Medical examiner:			
Professional services	5,500	3,685	1,815
Animal control:			
Operating expenses	58,567	53,933	4,634
Total public safety	1,440,345	1,361,119	79,226
Environmental protection:			
Sanitation:			
Operating expenses	-	192,800	-
Capital outlay	-	10,950	-
Total environmental protection	208,795	203,750	5,045
Economic and physical development:			
Agricultural extension:			
Salaries and employee benefits	-	89,719	-
Operating expenses	-	13,294	-
Capital outlay	-	4,000	-
Total	119,601	107,013	12,588
Soil and water conservation:			
Salaries and employee benefits	-	65,753	-
Operating expenses	-	3,453	-
Total	78,600	69,206	9,394

Gates County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Albemarle Commission	6,500	6,500	-
Cooperative Extension Service:			
Support our Students	-	70,423	-
Genesis	-	29,988	-
New Choices	-	17,976	-
School Age Child Care	-	29,006	-
Life smarts	-	1,588	-
Making a job	-	42,298	-
United Way	-	1,605	-
Divorce filing fee expense	-	32,839	-
Duke Endowment	-	22,735	-
Total	<u>292,979</u>	<u>248,458</u>	<u>44,521</u>
GITS:			
Salaries and employee benefits	-	181,564	-
Operating expenses	-	141,782	-
Capital outlay	-	88,646	-
Total	<u>472,292</u>	<u>411,992</u>	<u>60,300</u>
Total economic and physical development	<u>969,972</u>	<u>843,169</u>	<u>126,803</u>
Human services:			
Health:			
Janitorial services - Health Dept.	-	4,256	-
County's share - Hertford-Gates Albemarle Regional Health Services	-	104,000	-
Contribution - Roanoke Chowan Mental Health Center	-	39,557	-
Albemarle Hopeline	-	3,500	-
Mosquito control	-	12,000	-
Total	<u>164,563</u>	<u>163,313</u>	<u>1,250</u>
Social services:			
Administration:			
Salaries and employee benefits	-	781,407	-
Other operating expenditures	-	63,988	-
Total	<u>843,209</u>	<u>845,395</u>	<u>(2,186)</u>
Special assistance for adults:			
County participation	<u>100,635</u>	<u>110,455</u>	<u>(9,820)</u>

(cont.)

Gates County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Medicaid:			
County participation	597,121	579,279	17,842
Special social services:			
Food stamp program	-	5,220	-
Day care	-	279,909	-
Medicaid transportation	-	41,848	-
Crisis intervention	-	28,469	-
N. C. Blind Commission	-	806	-
Domestic Violence	-	6,038	-
Work First	-	34,010	-
Smart Start	-	44,251	-
CPS & independent living	-	496	-
Others	-	15,767	-
Total	511,636	456,814	54,822
Total social services	2,052,601	1,991,943	60,658
Special appropriations:			
CAMA land use	-	5,350	-
Veterans service	-	18,500	-
Juvenile Crime Prevention	-	33,314	-
Others	-	22,328	-
Total special appropriations	100,420	79,492	20,928
Total human services	2,317,584	2,234,748	82,836
Cultural and recreational:			
Community Center:			
Operating expenses	219,822	217,523	2,299
Libraries:			
Operating expenses	86,123	86,123	-
Total culture and recreation	305,945	303,646	2,299
Education:			
Public schools - current	-	2,190,000	-
Public schools - capital outlay	-	70,000	-
Public School Building Capital Fund	-	284,425	-
Total education	2,545,000	2,544,425	575

(cont.)

Gates County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Principal retirement	-	417,557	-
Interest and other charges	-	145,170	-
Total debt service	<u>562,730</u>	<u>562,727</u>	<u>3</u>
Total expenditures	<u>9,726,107</u>	<u>9,289,287</u>	<u>436,820</u>
Revenues over (under) expenditures	<u>(797,390)</u>	<u>(19,161)</u>	<u>778,229</u>
Other financing sources (uses):			
Transfers to other funds:			
Special Revenue Funds	(40,000)	(40,000)	-
Transfers from component unit:			
Gates County ABC Board			
Profit distribution	1,600	2,500	900
Installment purchase proceeds	10,149	10,149	-
Sale of fixed assets	7,074	-	(7,074)
Total other financing sources (uses)	<u>(21,177)</u>	<u>(27,351)</u>	<u>(6,174)</u>
Appropriated Fund Balance	<u>818,567</u>	<u>-</u>	<u>(818,567)</u>
Total other financing sources (uses) and appropriated fund balance	<u>797,390</u>	<u>(27,351)</u>	<u>(824,741)</u>
Revenues and other financing sources and appropriated fund balance over expenditures and other financing uses	<u>\$ -</u>	<u>(46,512)</u>	<u>\$ (46,512)</u>
Fund balances:			
Beginning of year, July 1		<u>1,990,795</u>	
End of year, June 30		<u>\$ 1,944,283</u>	



<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>	
<u>Capital Reserve Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>	<u>DSS Construction Project</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 20,134	\$ 357,366	\$ -	\$ 357,366
-	83,644	-	83,644
<u>\$ 20,134</u>	<u>\$ 441,010</u>	<u>\$ -</u>	<u>\$ 441,010</u>
\$ 60,859	\$ 60,859	\$ 297,075	\$ 357,934
-	1,596	-	1,596
<u>60,859</u>	<u>62,455</u>	<u>297,075</u>	<u>359,530</u>
-	22,785	-	22,785
20,134	355,770	(297,075)	58,695
<u>20,134</u>	<u>378,555</u>	<u>(297,075)</u>	<u>81,480</u>
<u>\$ 20,134</u>	<u>\$ 441,010</u>	<u>\$ -</u>	<u>\$ 441,010</u>



<u>Special Revenue Funds</u>	
Capital Reserve	Total
Fund	Nonmajor Special Revenue Funds
\$ -	\$ 582,381
-	143,723
134	12,619
<u>134</u>	<u>738,723</u>
-	279,615
-	364,032
-	-
-	<u>643,647</u>
134	95,076
<u>20,000</u>	<u>40,000</u>
<u>20,134</u>	<u>135,076</u>
-	243,479
<u>\$ 20,134</u>	<u>\$ 378,555</u>

<u>Capital Project Funds</u>	
DSS Construction Project	Total Nonmajor Governmental Funds
\$ -	\$ 582,381
-	143,723
-	12,619
-	<u>738,723</u>
-	279,615
-	364,032
297,075	297,075
<u>297,075</u>	<u>940,722</u>
(297,075)	(201,999)
-	40,000
<u>(297,075)</u>	<u>(161,999)</u>
-	243,479
<u>\$ (297,075)</u>	<u>\$ 81,480</u>

Gates County, North Carolina
Revaluation Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	2006		Variance Positive (Negative)
	Budget	Actual	
Revenues			
Investment earnings	\$ -	\$ 2,025	\$ 2,025
Expenditures	-	-	-
Revenues over (under) expenditures	-	2,025	2,025
Other financing sources:			
Operating transfer in:			
General Fund	-	20,000	20,000
Revenues and other sources over (under) expenditures	\$ -	22,025	\$ 22,025
Fund balances:			
Beginning of year, July 1		81,258	
End of year, June 30		<u>\$ 103,283</u>	

Gates County, North Carolina
Emergency Telephone System Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	2006		Variance Positive (Negative)
	Budget	Actual	
Revenues			
Other taxes and licenses	\$ 130,000	\$ 143,723	\$ 13,723
Investment earnings	3,390	9,662	6,272
Total revenues	<u>133,390</u>	<u>153,385</u>	<u>19,995</u>
Expenditures			
Public safety	<u>168,510</u>	<u>61,390</u>	<u>107,120</u>
Revenues over expenditures	<u>35,120</u>	<u>91,995</u>	<u>127,115</u>
Appropriated fund balance	<u>35,120</u>	<u>-</u>	<u>(35,120)</u>
Revenues and appropriated fund balance over expenditures	<u>-</u>	91,995	<u>91,995</u>
Fund balances:			
Beginning of year, July 1		<u>162,221</u>	
End of year, June 30		<u>\$ 254,216</u>	

Gates County, North Carolina
Fire Protection Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	2006		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Fire protection fees	\$ 207,000	\$ 218,349	\$ 11,349
Investment earnings	-	798	798
Total revenues	<u>207,000</u>	<u>219,147</u>	<u>12,147</u>
Expenditures:			
Volunteer fire department	<u>207,000</u>	<u>218,225</u>	<u>(11,225)</u>
Revenues over expenditures	<u>\$ -</u>	922	<u>\$ 922</u>
Fund balances:			
Beginning of year, July 1		-	
End of year, June 30		<u>\$ 922</u>	

Gates County, North Carolina
Grant Project Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	Budget	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental CDBG	\$ 400,000	\$ -	\$ 364,032	\$ 364,032	\$(35,968)
Expenditures:					
Economic and physical development					
Clearance	40,000	-	37,081	37,081	2,919
Relocation	28,000	-	21,285	21,285	6,715
Rehabilitation	292,000	-	286,666	286,666	5,334
Administration	40,000	-	19,000	19,000	21,000
Total expenditures	<u>400,000</u>	<u>-</u>	<u>364,032</u>	<u>364,032</u>	<u>35,968</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund balances:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ -</u>		

Gates County, North Carolina
Capital Reserve Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	2006		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Investment earnings	\$ -	\$ 134	\$ 134
Expenditures:			
Operating expenditures	-	-	-
Revenues over expenditures	-	134	134
Other financings sources			
Operating transfer in General Fund	-	20,000	20,000
Revenues and other sources over expenditures	<u>\$ -</u>	20,134	<u>\$ 20,134</u>
Fund balances:			
Beginning of year, July 1		-	
End of Year, June 30		<u>\$ 20,134</u>	

Gates County, North Carolina
DSS Construction Project
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2006

	Project Author- ization	Actual		Variance Positive (Negative)
		Current Year	Total to Date	
Expenditures:				
Legal expense	\$ 7,500	\$ -	\$ -	\$ 7,500
Architectural design	118,608	104,575	104,575	14,033
Land purchase	194,500	192,500	192,500	2,000
Construction costs	1,404,000	-	-	1,404,000
Equipment	19,674	-	-	19,674
Contingency	57,048	-	-	57,048
Total expenditures	<u>1,801,330</u>	<u>297,075</u>	<u>297,075</u>	<u>1,504,255</u>
Revenues under expenditures	(1,801,330)	(297,075)	(297,075)	1,504,255
Other financing sources:				
Installment purchase proceeds	<u>1,801,330</u>	<u>-</u>	<u>-</u>	<u>(1,801,330)</u>
Net change in fund balance	<u>\$ -</u>	<u>(297,075)</u>	<u>\$ (297,075)</u>	<u>\$ (297,075)</u>
Fund balance - beginning		-		
Fund balance - ending		<u>\$ (297,075)</u>		

Gates County, North Carolina
Landfill Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2006

	2006		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Charges for services:			
Solid Waste charges	\$ 572,000	\$ 560,528	\$ (11,472)
Nonoperating revenues:			
Interest earnings	-	1,428	1,428
Total revenues	<u>572,000</u>	<u>561,956</u>	<u>(10,044)</u>
Expenditures:			
Landfill operations:			
Operating expenditures	<u>572,000</u>	<u>580,833</u>	<u>(8,833)</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>(18,877)</u>	<u>\$ (18,877)</u>
 Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items		-	
Change in net assets		<u>\$ (18,877)</u>	

Gates County, North Carolina
Water Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2006

	2006		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues			
Water sales	\$ 680,000	\$ 682,887	\$ 2,887
Water taps and connection fees	93,427	99,438	6,011
Miscellaneous	-	263	263
Total operating revenue	<u>773,427</u>	<u>782,588</u>	<u>9,161</u>
Nonoperating revenues:			
Interest earnings	13,897	31,784	17,887
Tax refunds	1,800	4,008	2,208
Total nonoperating revenues	<u>15,697</u>	<u>35,792</u>	<u>20,095</u>
Total revenues	<u>789,124</u>	<u>818,380</u>	<u>29,256</u>
Expenditures:			
Water and sewer administration:			
To County general fund for administration	49,000	49,000	-
Travel	1,100	452	648
Office supplies, telephone, postage	28,700	27,987	713
Insurance	29,312	29,311	1
Audit	6,150	6,125	25
Computer maintenance expense	14,000	14,000	-
Total	<u>128,262</u>	<u>126,875</u>	<u>1,387</u>
Water treatment, pump station and distribution:			
Salaries	166,839	156,593	10,246
Fringe benefits	52,385	42,105	10,280
Supplies, chemicals and materials	77,700	84,167	(6,467)
Electricity	50,000	39,108	10,892
Fuel and vehicle expense	24,500	21,476	3,024
Water analysis	8,700	3,731	4,969
Uniforms	3,000	2,916	84
Engineering	5,000	2,970	2,030
Repairs	7,000	3,616	3,384
Miscellaneous	10,000	4,027	5,973
Total	<u>405,124</u>	<u>360,709</u>	<u>44,415</u>

Gates County, North Carolina
Water Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2006

	2006		Variance Positive (Negative)
	Budget	Actual	
Debt service:			
Principal payment	113,000	112,697	303
Interest and fees	78,000	77,522	478
Total	<u>191,000</u>	<u>190,219</u>	<u>781</u>
Capital outlay:			
Equipment	99,500	46,280	53,220
Total expenditures	<u>823,886</u>	<u>724,083</u>	<u>99,803</u>
Revenues over (under) expenditures	<u>(34,762)</u>	<u>94,297</u>	<u>129,059</u>
Appropriated net assets	<u>34,762</u>	<u>-</u>	<u>(34,762)</u>
Revenues and appropriated net assets over expenditures	<u>\$ -</u>	<u>94,297</u>	<u>\$ 94,297</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Debt principal		112,697	
Capital outlay		46,280	
Increase in accrued vacation pay		(267)	
Depreciation		(211,709)	
Total reconciling items		<u>(52,999)</u>	
Change in net assets		<u>\$ 41,298</u>	

Gates County, North Carolina
Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Social Services				
Assets:				
Cash and cash equivalents	<u>\$ 18,586</u>	<u>\$ 29,374</u>	<u>\$ 45,344</u>	<u>\$ 2,616</u>
Liabilities:				
Miscellaneous liabilities	<u>\$ 18,586</u>	<u>\$ 29,374</u>	<u>\$ 45,344</u>	<u>\$ 2,616</u>
DMV Fund				
Assets:				
Cash and cash equivalents	<u>\$ -</u>	<u>\$ 291</u>	<u>\$ -</u>	<u>\$ 291</u>
Liabilities:				
Miscellaneous liabilities	<u>\$ -</u>	<u>\$ 291</u>	<u>\$ -</u>	<u>\$ 291</u>
Totals - All Agency Funds				
Assets:				
Cash and cash equivalents	<u>\$ 18,586</u>	<u>\$ 29,665</u>	<u>\$ 45,344</u>	<u>\$ 2,907</u>
Liabilities:				
Miscellaneous liabilities	<u>\$ 18,586</u>	<u>\$ 29,665</u>	<u>\$ 45,344</u>	<u>\$ 2,907</u>

OTHER SCHEDULES

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy

Gates County, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2006

Fiscal Year	Uncollected Balance June 30, 2005	Additions	Collections And Credits	Uncollected Balance June 30, 2006
2005-2006	\$ -	\$ 4,545,451	\$ 4,260,173	\$ 285,278
2004-2005	342,275	5,824	230,302	117,797
2003-2004	105,497	-	48,890	56,607
2002-2003	74,620	-	30,842	43,778
2001-2002	54,619	-	13,350	41,269
2000-2001	44,044	-	8,575	35,469
1999-2000	31,357	-	2,813	28,544
1998-1999	25,153	-	3,587	21,566
1997-1998	26,849	-	4,027	22,822
1996-1997	18,281	-	2,451	15,830
1995-1996	12,851	-	12,851	-
	\$ 735,546	\$ 4,551,275	\$ 4,617,861	668,960
Plus: uncollected 2006-2007 ad valorem taxes receivable on annually registered vehicles				92,618
Less: allowance for uncollectible accounts: General Fund				(83,200)
Ad valorem taxes receivable - net: General Fund				\$ 678,378
 <u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 4,666,765
Reconciling items:				
Interest collected				(65,288)
Taxes written off				16,384
Total reconciling items				(48,904)
Total collections and credits				\$ 4,617,861

Gates County, North Carolina
 Analysis of Current Tax Levy
 County - wide Levy
 June 30, 2006

	County - wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 476,049,556	0.87	\$ 4,141,756	\$ 3,660,600	\$ 481,156
Property taxed at prior year's rate	32,914,786	0.85	279,776	-	279,776
Penalties	-		2,381	2,381	-
Total	<u>508,964,342</u>		<u>4,423,913</u>	<u>3,662,981</u>	<u>760,932</u>
Discoveries:					
Current year taxes	<u>15,844,078</u>		<u>137,843</u>	<u>137,843</u>	-
Abatements	<u>(1,874,209)</u>		<u>(16,305)</u>	<u>(3,207)</u>	<u>(13,098)</u>
Total property valuation	<u>\$ 522,934,271</u>				
Net levy			4,545,451	3,797,617	747,834
Uncollected taxes at June 30, 2006			<u>(285,278)</u>	<u>(170,807)</u>	<u>(114,471)</u>
Current year's taxes collected			<u>\$ 4,260,173</u>	<u>\$ 3,626,810</u>	<u>\$ 633,363</u>
Current levy collection percentage			<u>93.72%</u>	<u>95.50%</u>	<u>84.69%</u>

COMPLIANCE SECTION

**Report On Internal Control Over Financial Reporting And On Compliance And Other
Matters Based On An Audit Of Financial Statements Performed In Accordance With
*Government Auditing Standards***

To the Board of County Commissioners
Gates County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Gates County, North Carolina, as of and for the year ended June 30, 2006, which collectively comprises the County's basic financial statements, and have issued our report thereon dated August 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gates County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government-Auditing Standards*. We noted certain matters that we reported to management of Gates County, in a separate letter dated August 24, 2006.

To the Board of County Commissioners
Gates County, North Carolina
Page 2

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the Board of Commissioners 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.

Pittard Perry & Co., Inc.

Ahoskie, North Carolina
August 24, 2006

**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 Board of County Commissioners
Gates County, North Carolina

Compliance

We have audited the compliance of Gates County, North Carolina, 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 are applicable to each of its major federal programs for the year ended June 30, 2006. Gates County'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 Gates County's management. Our responsibility is to express an opinion on Gates County'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 Gates County'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 on Gates County's compliance with those requirements.

In our opinion, Gates County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Gates County 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 Gates County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, others within the organization, members of the Board of Commissioners 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.

Pittard Army & Co., Inc.

Ahoskie, North Carolina
August 24, 2006

Gates County, North Carolina
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
 For the Fiscal Year Ended June 30, 2006

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes	<input checked="" type="checkbox"/>	no
Reportable conditions identified that are not considered to be material weaknesses	yes	<input checked="" type="checkbox"/>	none reported

Noncompliance material to financial statements noted	yes	<input checked="" type="checkbox"/>	no
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Federal Awards

Internal control over major federal programs:

Material weaknesses identified?	yes	<input checked="" type="checkbox"/>	no
Reportable conditions identified that are not considered to be material weaknesses	yes	<input checked="" type="checkbox"/>	none reported

Noncompliance material to federal awards	yes	<input checked="" type="checkbox"/>	no
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Type of auditor's 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	<input checked="" type="checkbox"/>	no
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Identification of major federal programs:

<u>CFDA#</u>	<u>Program Name</u>
10.551	Food Stamp Program
93.778	Medical Assistance Program
14.228	Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs	<u>\$ 300,000</u>
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Auditee qualified as low-risk auditee?	yes	<input checked="" type="checkbox"/>	no
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Gates County, North Carolina
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2006

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

Section V. Status of Prior Year Findings

None reported

Gates County, North Carolina
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2006

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>
Federal Awards:			
<u>U.S. Dept. of Agriculture</u>			
Passed-through the N.C. Dept. of Health and Human Services:			
Division of Social Services:			
Administration:			
Food Stamp Cluster:			
Food Stamp Program – Noncash	10.551	\$ 1,103,484	\$ -
State Administrative Matching Grants For the Food Stamp Program	10.561	85,128	-
Total Food Stamp Cluster		1,188,612	-
<u>U.S. Dept. of Urban Development</u>			
Community Development Block Grant	14.228	364,032	-
<u>U.S. Department of Justice</u>			
Passed-through N.C. Dept. Crime Control and Public Safety			
Homeland Security	16.607	98	-
Juvenile Justice Delinquency	16.540	22,666	-
Total		22,764	-
<u>U.S. Dept. of Health and Human Services</u>			
<u>Administration for Children and Families</u>			
Passed-through the N.C. Dept. of Health and Human Services:			
Division of Social Services:			
Temporary Assistance for Needy Families	93.558	211,492	-
Low Income Home Energy Assistance Block Grant:			
Administration	93.568	27,660	5,240
Direct Benefit Payments	93.568	15,258	-
Links	93.674	398	100
N.C. Health Choice	93.767	72,848	480
Social Services Block Grant	93.667	49,604	3,834
Title IV-E Foster Care	93.658	26,167	18,718
Permanency Planning	93.645	1,079	360
Subsidized Child Care (Note 2)			
<u>Child Care Development Fund Cluster</u>			
Division of Social Services			
Child Care Development Fund-Administration	93.596	60,000	-
Division of Child Development			
Child Care and Development Fund - Discretionary	93.575	100,567	-
Child Care and Development Fund - Mandatory	93.596	47,283	-
Child Care and Development Fund - Match	93.596	46,973	26,993
Total Child Care Fund Cluster		254,823	26,993

Gates County, North Carolina
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2006

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>
Social Services Block Grant	93.667	1,144	-
Temporary Assistance for Needy Families	93.558	32,646	-
Smart Start		-	16,590
State Appropriations		-	18,233
TANF-MOE		-	40,148
Total Subsidized Child Care Cluster		288,613	101,964
 <u>Health Care Financing Administration</u>			
Passed-through the N.C. Dept. of Health and Human Services:			
Division of Medical Assistance:			
Direct Benefit Payments	93.778	7,343,449	3,571,494
Division of Social Services:			
Medical Assistance Program	93.778	122,209	6,911
 <u>U.S. Department of Transportation</u>			
Passed through N.C. Department of Transportation:			
Community Transportation Program	20.509	118,362	-
 <u>U.S. Department of Homeland Security</u>			
Passed through N.C. Dept. of Crime Control & Public Safety:			
Emergency Management	97.042	14,164	-
Homeland Security Grant	97.004	31,891	-
Total federal awards		7,630,075	3,578,405
 State Awards:			
<u>N.C. Dept. of Health and Human Services:</u>			
Division of Social Services:			
State Aid to Counties		-	9,278
Domiciliary Care -- Direct Benefit		-	110,454
Total		-	119,732
 <u>Office of the Governor</u>			
Public School Building Capital Fund		-	284,425
 <u>N.C. Dept. of Transportation:</u>			
ROAP		-	68,553
 <u>N.C. Dept. of Administration:</u>			
Division of Veterans Affairs		-	2,000

Gates County, North Carolina
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2006

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>
<u>N.C. Dept. of Juvenile Justice and Delinquency Prevention:</u>			
Support our Student Program (SOS)		-	73,830
CBA Genesis		-	29,013
New Choices		-	18,000
Life Smarts		-	3,996
School Age Child Care		-	38,328
Total		-	163,167
HAVA Grant		-	99,793
<u>N.C. Dept. of Health and Human Services:</u>			
Smart Start		-	34,000
Total State awards		-	771,670
Total federal and State Awards		<u>\$ 9,898,602</u>	<u>\$ 4,480,771</u>

Notes to the Schedule of Expenditures of Federal and State Financial 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 and is presented on the modified accrual 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 Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements. Benefit payments are paid directly to recipients and are not included in the county's basic financial statements. However, due to the county's involvement in determining eligibility, they are considered federal awards to the county and are included on this schedule.

2. The following are clustered by the NC Department of Health and Human Services and are treated separately for state audit requirement purposes: Subsidized Child Care, Foster Care and Adoption.

To the Board of Commissioners
Gates County, North Carolina

In planning and performing our audit of the financial statements of Gates County, North Carolina for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of our report on the financial statements and not to provide assurance on the internal control structure. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses under standards established by the American Institute of Certified Public Accountants.

During our audit, we noted the following immaterial discrepancies:

The County budgeted operating transfers out in the General Fund to the Revaluation and Capital Reserve Funds. There was no operating transfer in budgeted in the Special Revenue Funds. Budgeted operating transfers should balance between funds.

In our testing of the Food Stamp program, we found where the Form 8207 was not in the participants file.

In our testing of Medicaid, we found two instances where the Form 8124 was not signed by the applicant.

The County overspent appropriations in the Landfill Fund and the Fire Protection Fund. Management should make appropriate budget amendments when expenditures exceed appropriations.

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

Pittard Perry & Crone, Inc.

Ahoskie, North Carolina
August 24, 2006