

Statement of
SCOTLAND COUNTY
Laurinburg, North Carolina
June 30, 2012

SCOTLAND COUNTY, NORTH CAROLINA

BOARD OF COUNTY COMMISSIONERS

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Joyce McDow, Vice Chairperson

John T. Alford, Commissioner

John C. Cooley, Commissioner

Carol H. McCall, Commissioner

Guy McCook, Commissioner

Clarence McPhatter, II, Commissioner

COUNTY OFFICIALS

Ann W. Kurtzman, Clerk to Board

Kevin G. Patterson, County Manager

Scotland County, North Carolina
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June 30, 2012

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FINANCIAL SECTION

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Independent Auditor's Report

To the Board of County Commissioners
Scotland 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 Scotland County, North Carolina, as of and for the year ended June 30, 2012 which collectively comprise Scotland County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Scotland County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Scotland County ABC Board which represents 34.90 percent, 25.68 percent and 96.82 percent respectively, of the assets, net assets and revenues of the aggregate discretely presented component unit. 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 Scotland County ABC Board is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Scotland County ABC Board were not audited in accordance with *Government Auditing Standards* and were not required to be audited in accordance with Governmental Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Scotland County as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison of 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 November 15, 2012 on our consideration of Scotland County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Other Post Employment Benefit and Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions on pages 3 through 11 and 55 and 53, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Scotland County, North Carolina as a whole. The introductory information, combining and individual nonmajor fund financial statements budgetary schedules, other schedules, and the statistical tables, 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 not a required part of the financial statements. The combining and individual nonmajor fund financial statements budgetary schedules, other schedules and the accompanying schedule of expenditures of federal and State awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditor in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory information and the statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Gustaf C. Lundin + Company, LLP
GUSTAF C. LUNDIN & COMPANY, LLP
November 15, 2012

Management's Discussion and Analysis

As management of Scotland County, we offer readers of Scotland County's financial statements this narrative overview and analysis of the financial activities of Scotland County for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative.

Financial Highlights

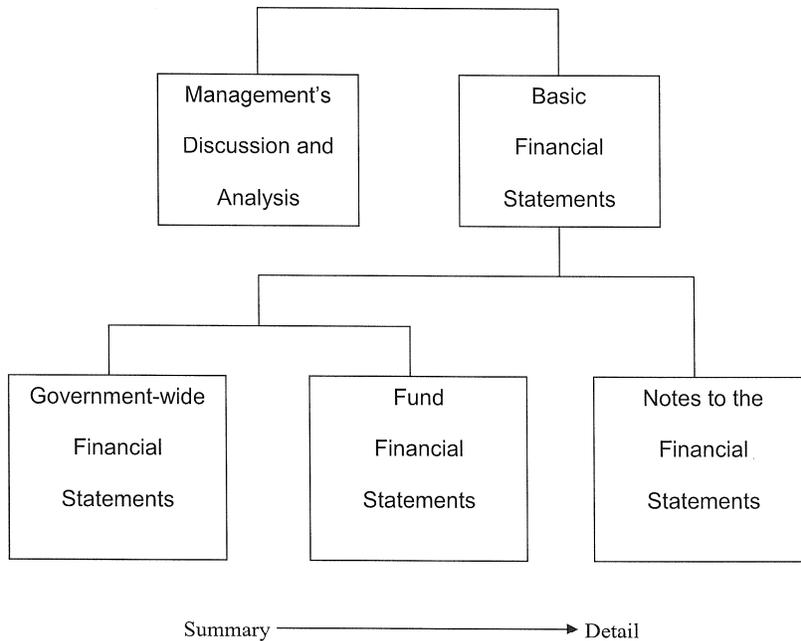
- The assets of Scotland County exceeded its liabilities at the close of the fiscal year by \$8,584,135 (*net assets, exhibit 1*).
- The government's total net assets increased by \$1,147,626 primarily due to cost cutting measures in the General Fund.
- As of the close of the current fiscal year, Scotland County's governmental funds reported combined ending fund balances of \$7,263,665 (*exhibit 3*) a decrease of \$693,813 in comparison with the prior year. Approximately 49.05 percent of this total amount, or \$3,562,671 is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,562,671 or 9.81 percent of total General Fund expenditures for the fiscal year.
- Scotland County maintained its Aaa bond rating.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Scotland County's 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 1). 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 enhance the reader's understanding of the financial condition of Scotland County.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the County's financial status.

The next statements (Exhibits 3 through 10) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. 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 data contained in those statements. After the notes, **supplemental information** is provided to show details about the County's non-major governmental funds and internal service 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.

Following the notes is the required supplemental information. This section contains funding information about the County's pension plans.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances, similar in format to a financial statement of a private-sector business. 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 and how they have changed. Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to gauge the County's financial condition.

The government-wide statements 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, parks and recreation, 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 sewer and landfill services offered by Scotland County. The final category is the component units. Scotland County Water Districts I and II (the *Districts*) exist to provide and maintain a water system for the county residents within the district. The Districts are reported as an enterprise fund in the County's financial statements. Scotland County Industrial Facility and Pollution Control Financing Authority (the *Authority*) exists to issue and service revenue bond debt of private businesses for economic development purposes. The Authority has no financial transactions or account balances; therefore, it is not presented in the basic financial statements. Scotland County Historic Properties Commission, which has a June 30 year-end, and Scotland County ABC Board (the *Board*), which has a June 30 year-end, are presented as if they are separate proprietary funds of the County (discrete presentation).

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

Fund Financial Statements

The fund financial 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. Scotland 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 Scotland County can be divided into two categories: governmental funds and proprietary funds.

Governmental 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 assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County’s programs. The relationship between government activities (reported in the 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.

Scotland 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 – Scotland County has one kind of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Scotland County uses enterprise funds to account for its water and sewer activity and for its landfill operations. These funds are the same as those separate activities shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Notes to the 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 start on page 24 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Scotland County’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 53 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of Scotland County exceeded liabilities by \$8,584,135 as of June 30, 2012. The County's net assets increased by \$1,147,626 (exhibit 2) for the fiscal year ended June 30, 2012. The County will continue to seek every method of containing costs. It is important for the reader to note that Scotland County is financing the long-term debt of school properties without the ability to maintain the ownership of the land, buildings, or other improvements, which would typically be listed as offsetting assets on the Statement of Net Assets. Scotland County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Scotland County's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. A portion of Scotland County's net assets is negative \$5,262,612 (Exhibit 1) and unrestricted.

Scotland County's Net Assets

Figure 2

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 12,634,804	\$ 13,504,668	\$ 704,586	\$ 684,827	\$ 13,339,390	\$ 14,189,495
Capital assets	10,493,743	9,972,965	9,337,864	9,719,545	19,831,607	19,692,510
Total assets	\$ 23,128,547	\$ 23,477,633	\$ 10,042,450	\$ 10,404,372	\$ 33,170,997	\$ 33,882,005
Long-term liabilities outstanding	\$ 15,192,796	\$ 16,456,353	\$ 8,350,401	\$ 8,470,051	\$ 23,543,197	\$ 24,926,404
Other liabilities	962,433	1,466,234	81,232	131,719	1,043,665	1,597,953
Total liabilities	\$ 16,155,229	\$ 17,922,587	\$ 8,431,633	\$ 8,601,770	\$ 24,586,862	\$ 26,524,357
Net assets:						
Invested in capital assets, net of related debt	\$ 7,536,471	\$ 6,093,035	\$ 2,771,087	\$ 2,959,288	\$ 10,307,558	\$ 9,052,323
Restricted	3,539,189	4,704,790	-	-	3,539,189	4,704,790
Unrestricted	(4,102,342)	(5,163,919)	(1,160,270)	(1,156,686)	(5,262,612)	(6,320,605)
Total net assets	\$ 6,973,318	\$ 5,633,906	\$ 1,610,817	\$ 1,802,602	\$ 8,584,135	\$ 7,436,508

Several particular aspects of the County's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by keeping our collection percentage around 91.98% and striving to improve collectibility.
- Continued utilization of management's successful cost containment strategies, which have resulted in strong cash reserves.
- Continued low cost of debt due to aggressive structuring of debt issuances and refinancing and the County's high bond rating.

Scotland County Changes in Net Assets
Figure 3

SCOTLAND COUNTY'S CHANGES IN NET ASSETS

	Governmental		Business-type		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 2,878,484	\$ 2,776,815	\$ 2,671,074	\$ 2,612,223	\$ 5,549,558	\$ 5,389,038
Operating grants and contributions	8,223,729	10,318,739	-	-	8,223,729	10,318,739
General revenues:						
Property taxes	20,484,259	20,175,101	-	-	20,484,259	20,175,101
Local option sales tax	5,461,231	5,544,879	-	-	5,461,231	5,544,879
Other taxes	300,256	232,850	-	-	300,256	232,850
Interest investment earnings	22,094	24,354	-	-	22,094	24,354
Other	437,894	446,682	-	-	437,894	446,682
Total revenues	\$ 37,807,947	\$ 39,519,420	\$ 2,671,074	\$ 2,612,223	\$ 40,479,021	\$ 42,131,643
Expenses:						
General government	2,082,881	2,521,787	-	-	2,082,881	2,521,787
Public safety	7,618,262	8,285,999	-	-	7,618,262	8,285,999
Economic and physical development	788,889	1,475,004	-	-	788,889	1,475,004
Central services	1,400,302	1,697,022	-	-	1,400,302	1,697,022
Human services	11,996,434	13,231,822	-	-	11,996,434	13,231,822
Cultural and recreation	930,595	1,088,353	-	-	930,595	1,088,353
Other expenditures	231,766	341,128	-	-	231,766	341,128
Education	11,124,916	12,443,253	-	-	11,124,916	12,443,253
Revaluation	12	173,143	-	-	12	173,143
Interest on long-term debt	294,478	342,208	-	-	294,478	342,208
Solid waste	-	-	1,671,916	1,698,378	1,671,916	1,698,378
Water district I	-	-	611,787	696,894	611,787	696,894
Water district II	-	-	579,157	714,827	579,157	714,827
Total expenses	\$ 36,468,535	\$ 41,601,719	\$ 2,862,860	\$ 3,110,099	\$ 39,331,395	\$ 44,711,818
Increase (decrease) in net assets before transfers	1,339,412	(2,082,299)	(191,786)	(497,876)	1,147,626	(2,580,175)
Transfers	-	-	-	-	-	-
Increase (decrease) in net assets	1,339,412	(2,082,299)	(191,786)	(497,876)	1,147,626	(2,580,175)
Net assets, July 1	5,633,906	7,716,205	1,802,603	2,300,478	7,436,509	10,016,683
Net assets, June 30	<u>\$ 6,973,318</u>	<u>\$ 5,633,906</u>	<u>\$ 1,610,817</u>	<u>\$ 1,802,603</u>	<u>\$ 8,584,135</u>	<u>\$ 7,436,509</u>

Governmental activities. Governmental activities increased the County's net assets by \$1,339,412. The increase was due to cost cutting measures in the General Fund.

Business-type activities: Business-type activities decreased Scotland County's net assets by \$191,786. The Proprietary Funds had a decrease in net assets primarily due to depreciation in the Water District I, Water District II and the landfill. Other post employment benefit accruals also added to the decrease.

Financial Analysis of the County's Funds

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

Governmental Funds. The focus of Scotland County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Scotland County's financing requirements. Specifically, fund balance available for appropriation can be 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 Scotland County. At the end of the current fiscal year Scotland County fund balance available in the General Fund was \$3,562,671, while total fund balance reached \$5,938,069. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 9.81 percent of total General Fund expenditures, while total fund balance represents 16.35 percent of that same amount.

At June 30, 2012, the governmental funds of Scotland County reported a combined fund balance of \$7,263,665 a 8.72 percent decrease over last year. The primary reason for the decrease is expenditures on capital projects.

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 increased revenues by \$520,859.

Proprietary Funds. Scotland County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Public Works-Solid Waste Fund at the end of the fiscal year amounted to \$(1,975,437) and those for the Water District I Fund equaled \$886,342, and those for the Water District II Fund equaled \$(71,175). The total change in net assets for these Funds was \$(206,764), \$50,245 and \$(35,267), respectively.

Capital Asset and Debt Administration

Capital assets. Scotland County's capital assets for its governmental and business-type activities as of June 30, 2012 totals \$19,831,607 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include:

- Purchase of new vehicles for the Public Safety Department and general areas of the General Fund
- Construction in progress for the Wagram School project and other capital projects

Scotland County's Capital Assets
Figure 4

SCOTLAND COUNTY'S CAPITAL ASSETS
(net of depreciation)

	Governmental Activities		Business type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,352,082	\$ 1,352,082	\$ 314,334	\$ 314,334	\$ 1,666,416	\$ 1,666,416
Buildings and system	5,034,041	5,253,414	8,721,339	9,042,727	13,755,380	14,296,141
Machinery and equipment	344,918	321,449	256,004	288,593	600,922	610,042
Vehicles and motorized equipment	788,405	1,058,337	46,187	73,888	834,592	1,132,225
Construction in progress	<u>2,974,297</u>	<u>1,987,683</u>	<u>-</u>	<u>-</u>	<u>2,974,297</u>	<u>1,987,683</u>
Total	<u>\$ 10,493,743</u>	<u>\$ 9,972,965</u>	<u>\$ 9,337,864</u>	<u>\$ 9,719,542</u>	<u>\$ 19,831,607</u>	<u>\$ 19,692,507</u>

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, 2012 Scotland County had total bonded debt outstanding of \$14,162,500 all of which is debt backed by the full faith and credit of the County.

**Scotland County's Outstanding Debt
General Obligation and Revenue Bonds
Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 7,678,000	\$ 8,735,000	\$6,484,500	\$6,598,000	\$14,162,500	\$ 15,333,000
Installment purchases	2,957,272	3,879,930	82,278	162,257	3,039,550	4,042,187
Total	\$10,635,272	\$12,614,930	\$6,566,778	\$6,760,257	\$17,202,050	\$ 19,375,187

Scotland County's total debt decreased by \$2,173,137 during the past fiscal year, due to payments on debt.

As mentioned in the financial highlights section of this document, Scotland County maintained for the 20th consecutive year, its Aaa bond rating from Moody's Investor Service. This bond rating is a clear indication of the sound financial condition of Scotland County. Scotland County is one of the few counties in the country that maintains the highest financial rating from both major rating agencies. This achievement is a primary factor in keeping interest costs low on the County's outstanding debt.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Scotland County is \$144,625,366.

Additional information regarding Scotland County's long-term debt can be found in Note III.B.7. beginning on page 48 of this audited financial report.

Economic Factors and Next Year's Budgets and Rates

- The County's unemployment rate continues to be one of the highest in the State at 17.6% for July 2012, which is well above the state average.
- FCC completed a 10 million dollar expansion in FY2012 and just announced a 57.6 million dollar expansion with 66 new employees.
- Service thread announced an expansion of 35 employees with at least \$700,000 in new equipment investment.
- Scotland County Economic Development Corporation continues building a 1 million dollar SBIC building as well as a new planned industrial park.

Budget Highlights for the Fiscal Year Ending June 30, 2013

- Our property tax rate was increased from \$.99 to \$1.03.
- Sales taxes are expected to remain flat compared to 2012 actuals.
- General Fund budget was reduced by another \$200,000+.
- Public Works Fund increased its tipping fees.
- Water districts increased water rates.

Requests for Information

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, Scotland County, PO Box 489, Laurinburg, NC 28353. You can also call 910-277-2405, visit our website at www.scotlandcounty.org or send an email to cnichols@scotlandcounty.org.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Scotland County, North Carolina
Statement of Net Assets
June 30, 2012

	Primary Government			Scotland Co. Historic Properties Commission
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	4,550,193	724,495	5,274,688	107,681
Inventory	-	-	-	197,879
Receivables (net):				
Taxes	4,405,705	-	4,405,705	-
Accounts	581,581	221,831	803,412	-
Due from other governments	1,404,460	-	1,404,460	-
Due (to) from other funds	241,740	(241,740)	-	-
Prepaid expenses	148,771	-	148,771	1,704
Restricted cash	1,299,354	-	1,299,354	-
Deferred charge - bond issuance cost	3,000	-	3,000	-
Capital assets:				
Land, improvements and construction in progress	4,326,379	314,334	4,640,713	19,000
Other capital assets, net of depreciation	6,167,364	9,023,530	15,190,894	51,761
Total capital assets	10,493,743	9,337,864	19,831,607	70,761
Total assets	23,128,547	10,042,450	33,170,997	378,025
Liabilities				
Accounts payable and accrued liabilities	734,890	75,322	810,212	136,361
Unearned revenues	227,543	-	227,543	-
Deferred revenue	-	5,910	5,910	-
Long-term liabilities:				
Due within one year	1,546,263	200,278	1,746,541	-
Due in more than one year	13,646,533	8,150,123	21,796,656	-
Total long-term liabilities	15,192,796	8,350,401	23,543,197	-
Total liabilities	16,155,229	8,431,633	24,586,862	136,361
Net assets				
Invested in capital assets, net of related debt	7,536,471	2,771,087	10,307,558	70,761
Restricted for:				
Fire protection	637,472	-	637,472	-
School capital project	28,777	-	28,777	-
Emergency telephone	625,577	-	625,577	-
Cultural and recreation - library	7,528	-	7,528	30,823
Recreation project	12,053	-	12,053	-
Stabilization by State statute	2,227,782	-	2,227,782	-
Working capital	-	-	-	49,848
Unrestricted	(4,102,342)	(1,160,270)	(5,262,612)	121,055
Total net assets	6,973,318	1,610,817	8,584,135	241,664

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

Scotland County, North Carolina
Statement of Activities
 For the Year Ended June 30, 2012

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets								
	Expenses	Charges for Services	Operating Grant	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Scotland County ABC Board	Scotland County Historic Properties Commission
Primary government:									
Governmental activities:									
General government	2,082,881	338,372	-	-	(1,744,509)	-	(1,744,509)	-	-
Public safety	7,618,262	1,626,626	-	-	(5,991,636)	-	(5,991,636)	-	-
Economic and physical development	788,889	-	-	-	(788,889)	-	(788,889)	-	-
Central service	1,400,302	-	-	-	(1,400,302)	-	(1,400,302)	-	-
Human services	11,996,434	43,398	8,223,729	-	(3,729,307)	-	(3,729,307)	-	-
Cultural and recreational	930,595	155,088	-	-	(775,507)	-	(775,507)	-	-
Other expenditures	231,766	-	-	-	(231,766)	-	(231,766)	-	-
Intergovernmental:									
Education	11,124,916	715,000	-	-	(10,409,916)	-	(10,409,916)	-	-
Revaluation	12	-	-	-	(12)	-	(12)	-	-
Interest on long-term debt	294,478	-	-	-	(294,478)	-	(294,478)	-	-
Total governmental activities	36,468,535	2,878,484	8,223,729	-	(25,366,322)	-	(25,366,322)	-	-
Business-type activities:									
Public Works	1,671,916	1,465,152	-	-	-	(206,764)	(206,764)	-	-
Water District Phase I	611,787	662,032	-	-	-	50,245	50,245	-	-
Water District Phase II	579,157	543,890	-	-	-	(35,267)	(35,267)	-	-
	2,862,860	2,671,074	-	-	-	(191,786)	(191,786)	-	-
Component units:									
ABC Board	1,284,682	1,297,224	18,100	10,000	-	-	-	12,542	(23,224)
Historic Properties	51,324	-	-	-	-	-	-	-	-
Total component units	1,336,006	1,297,224	18,100	10,000	-	-	-	12,542	(23,224)

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

Scotland County, North Carolina
Statement of Activities
 For the Year Ended June 30, 2012

	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			Scotland
	Governmental Activities	Business-type Activities	Total	County Historic Properties Commission
General revenues:				
Taxes:				
Property taxes, levied for general purpose	20,484,259	-	20,484,259	-
Local option sales tax	5,461,231	-	5,461,231	-
Other taxes and licenses	300,256	-	300,256	-
Investment earnings, unrestricted	22,094	-	22,094	226
Miscellaneous, unrestricted	437,894	-	437,894	-
Total general revenues, special items, and transfers	26,705,734	-	26,705,734	14,456
Change in net assets	1,339,412	(191,786)	1,147,626	12,768
Net assets-beginning	5,633,906	1,802,603	7,436,509	228,895
Net assets-ending	6,973,318	1,610,817	8,584,135	241,663
				699,441

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

FUND FINANCIAL STATEMENTS

Scotland County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	4,521,780	28,414	4,550,194
Restricted cash	-	1,299,354	1,299,354
Receivables (net)			
Taxes	4,405,705	-	4,405,705
Accounts	581,582	-	581,582
Prepaid expense	147,616	1,155	148,771
Due from other governments	1,404,460	-	1,404,460
Due from other funds	241,740	-	241,740
Total assets	<u>11,302,883</u>	<u>1,328,923</u>	<u>12,631,806</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued liabilities	731,566	3,327	734,893
Deferred revenues	4,405,705	-	4,405,705
Unearned revenue	<u>227,543</u>	<u>-</u>	<u>227,543</u>
Total liabilities	5,364,814	3,327	5,368,141
Fund balances:			
Nonspendable:			
Prepaid expenses	147,616	1,155	148,771
Restricted:			
Stabilization by State statute	2,227,782	-	2,227,782
Fire protection	-	637,472	637,472
School capital project	-	28,777	28,777
Emergency telephone	-	625,577	625,577
Library services	-	7,528	7,528
Recreation project	-	12,053	12,053
Committed:			
Tax revaluation	-	13,034	13,034
Unassigned:	<u>3,562,671</u>	<u>-</u>	<u>3,562,671</u>
Total fund balances	<u>5,938,069</u>	<u>1,325,596</u>	<u>7,263,665</u>
Total liabilities and fund balances	<u>11,302,883</u>	<u>1,328,923</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,493,743
Deferred charges related to advance refunding bond issue	3,000
Liabilities for earned but deferred revenues in fund statements.	4,405,705
Some liabilities, including bonds-notes payable, accrued interest, pension and other postemployment benefits, and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(15,192,795)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>6,973,318</u>

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

Scotland County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Other Governmental Funds	Total
Revenues:			
Ad valorem taxes	19,934,070	221,931	20,156,001
Local option sales taxes	5,402,231	59,000	5,461,231
Other taxes and licenses	99,260	200,996	300,256
Unrestricted intergovernmental	137,638	-	137,638
Restricted intergovernmental	9,001,572	-	9,001,572
Permits and fees	338,372	-	338,372
Sales and services	1,414,093	-	1,414,093
Investment earnings	14,895	7,199	22,094
Fines, forfeitures	275,352	-	275,352
Miscellaneous	373,080	-	373,080
Total revenues	<u>36,990,563</u>	<u>489,126</u>	<u>37,479,689</u>
Expenditures:			
General government	1,814,539	-	1,814,539
Public safety	6,471,601	867,691	7,339,292
Economic & physical development	779,187	-	779,187
Central service	1,307,636	-	1,307,636
Human services	11,398,402	-	11,398,402
Cultural and recreational	906,299	1,001	907,300
Other expenditures	231,766	-	231,766
Education	11,124,916	-	11,124,916
Revaluation	-	12	12
Capital outlay	-	996,316	996,316
Debt service:			
Principal retirement	1,979,658	-	1,979,658
Interest	294,478	-	294,478
Total expenditures	<u>36,308,482</u>	<u>1,865,020</u>	<u>38,173,502</u>
Excess of revenues over (under) expenditures	682,081	(1,375,894)	(693,813)
Other financing sources (uses):			
Transfers (to) other funds	(10,000)	10,000	-
Transfers from other funds	151,448	(151,448)	-
Total other financing sources (uses)	<u>141,448</u>	<u>(141,448)</u>	<u>-</u>
Net change in fund balance	823,529	(1,517,342)	(693,813)
Fund balances-beginning	<u>5,114,540</u>	<u>2,842,938</u>	<u>7,957,478</u>
Fund balances-ending	<u>5,938,069</u>	<u>1,325,596</u>	<u>7,263,665</u>

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

Scotland County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2012

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

Net changes in fund balances - total governmental funds	(693,813)
Governmental funds report capital outlay 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.	520,779
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	328,250
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on the 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.	1,979,158
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>(794,962)</u>
Total changes in net assets of governmental activities	<u><u>1,339,412</u></u>

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

Scotland County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Ad valorem taxes	20,434,108	19,722,655	19,934,070	211,415
Local option sales taxes	4,959,225	5,081,414	5,402,231	320,817
Other taxes and licenses	80,000	80,000	99,260	19,260
Unrestricted intergovernmental	100,000	100,000	137,638	37,638
Restricted intergovernmental	9,000,984	10,071,393	9,001,572	(1,069,821)
Permits and fees	329,471	355,471	338,372	(17,099)
Sales and services	1,213,200	1,227,014	1,414,093	187,079
Investment earnings	55,159	55,161	14,895	(40,266)
Fines, forfeitures	569,400	444,400	275,352	(169,048)
Miscellaneous	437,650	562,548	373,080	(189,468)
Total revenues	<u>37,179,197</u>	<u>37,700,056</u>	<u>36,990,563</u>	<u>(709,493)</u>
Expenditures:				
General government	2,249,394	2,075,033	1,814,539	260,494
Public safety	6,787,074	6,816,760	6,471,601	345,159
Economic and physical development	801,746	819,129	779,187	39,942
Central services	1,538,452	1,497,895	1,307,636	190,259
Human services	11,342,856	11,856,274	11,398,402	457,872
Cultural and recreational	1,008,613	974,706	906,299	68,407
Other expenditures	170,000	234,000	231,766	2,234
Intergovernmental:				
Education	10,966,189	11,141,189	11,124,916	16,273
Debt service:				
Principal retirement	1,979,658	1,979,658	1,979,658	-
Interest	457,080	457,080	294,478	162,602
Total expenditures	<u>37,301,062</u>	<u>37,851,724</u>	<u>36,308,482</u>	<u>1,543,242</u>
Excess of revenues over (under) expenditures	(121,865)	(151,668)	682,081	833,749
Other financing sources (uses):				
Transfers (to) other funds	(10,000)	(10,000)	(10,000)	-
Transfers from other funds	-	-	151,448	151,448
Total other financing sources (uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>141,448</u>	<u>151,448</u>
Appropriated fund balance	131,865	161,668	-	(161,668)
Net change in fund balance	<u>-</u>	<u>-</u>	<u>823,529</u>	<u>823,529</u>
Fund balances - beginning			<u>5,114,540</u>	
Fund balances - ending			<u>5,938,069</u>	

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

Scotland County, North Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Enterprise Funds			Total
	Blended Component Units			
	Public Works Fund	Water District Phase I Fund	Water District Phase II Fund	
ASSETS				
Current assets:				
Cash and cash equivalents	170	724,325	-	724,495
Accounts receivable, net	102,185	66,278	53,368	221,831
Due (to) from other funds	-	124,017	(124,017)	-
Total current assets	<u>102,355</u>	<u>914,620</u>	<u>(70,649)</u>	<u>946,326</u>
Noncurrent assets:				
Capital assets:				
Land, improvements & const. in progress	314,334	-	-	314,334
Other capital assets, net of depreciation	<u>342,691</u>	<u>2,740,477</u>	<u>5,940,362</u>	<u>9,023,530</u>
Total capital assets	<u>657,025</u>	<u>2,740,477</u>	<u>5,940,362</u>	<u>9,337,864</u>
Total assets	<u>759,380</u>	<u>3,655,097</u>	<u>5,869,713</u>	<u>9,337,864</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	50,627	24,170	526	75,323
General obligation bonds payable	-	40,500	77,500	118,000
Installment financing notes payable	82,278	-	-	82,278
Deferred revenue	5,910	-	-	5,910
Due to other funds	<u>241,740</u>	-	-	<u>241,740</u>
Total current liabilities	<u>380,555</u>	<u>64,670</u>	<u>78,026</u>	<u>523,251</u>
Noncurrent liabilities:				
Accrued landfill closure and postclosure costs	1,640,467	-	-	1,640,467
Other post employment benefits	108,726	-	-	108,726
Compensated absences payable	30,322	4,107	-	34,429
General obligation bonds payable	-	1,711,500	4,655,000	6,366,500
Total noncurrent liabilities	<u>1,779,515</u>	<u>1,715,607</u>	<u>4,655,000</u>	<u>8,150,122</u>
Total liabilities	<u>2,160,070</u>	<u>1,780,277</u>	<u>4,733,026</u>	<u>8,673,373</u>
NET ASSETS				
Invested in capital assets, net of related debt	574,747	988,478	1,207,862	2,771,087
Unrestricted	<u>(1,975,437)</u>	<u>886,342</u>	<u>(71,175)</u>	<u>(1,160,270)</u>
Total net assets	<u>(1,400,690)</u>	<u>1,874,820</u>	<u>1,136,687</u>	<u>1,610,817</u>

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

Scotland County, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Enterprise Funds			
	Blended Component Units			
	Public Works Fund	Water District Phase I Fund	Water District Phase II Fund	Total
Operating revenues:				
Charges for services	1,296,794	662,032	543,890	2,502,716
Other operating revenues	<u>168,358</u>	-	-	<u>168,358</u>
Total operating revenues	1,465,152	662,032	543,890	2,671,074
Operating expenses:				
Water purchases	-	219,637	118,647	338,284
Water operations	-	191,626	72,454	264,080
Landfill operations	1,536,827	-	-	1,536,827
Landfill closure and postclosure care costs	45,717	-	-	45,717
Depreciation	<u>84,707</u>	<u>113,237</u>	<u>183,737</u>	<u>381,681</u>
Total operating expenses	1,667,251	524,500	374,838	2,566,589
Operating income (loss)	(202,099)	137,532	169,052	104,485
Nonoperating (expenses):				
Interest	<u>4,665</u>	<u>87,287</u>	<u>204,319</u>	<u>296,271</u>
Total nonoperating (expenses)	4,665	87,287	204,319	296,271
Income (loss) before transfers	(206,764)	50,245	(35,267)	(191,786)
Change in net assets	(206,764)	50,245	(35,267)	(191,786)
Total net assets - beginning	<u>(1,193,926)</u>	<u>1,824,575</u>	<u>1,171,954</u>	<u>1,802,603</u>
Total net assets - ending	<u>(1,400,690)</u>	<u>1,874,820</u>	<u>1,136,687</u>	<u>1,610,817</u>

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

Scotland County, North Carolina
Statement of Cash Flows
For the Year Ended June 30, 2012

	Business-type Activities Enterprise Funds			Totals June 30, 2012
	Public Works Fund	Water District Phase I Fund	Water District Phase II Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	1,490,079	666,605	542,916	2,699,600
Cash paid for goods and services	(1,090,371)	(343,256)	(213,670)	(1,647,297)
Cash paid to or on behalf of employees for services	(460,801)	(72,681)	-	(533,482)
Net cash provided by (used in) operating activities	(61,093)	250,668	329,246	518,821
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Increase (decrease) in due to (from) other funds	145,737	49,927	(49,927)	145,737
Total cash flows provided by (used in) financing activities	145,737	49,927	(49,927)	145,737
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets				
Interest paid on bond maturities and equipment contracts	(4,665)	(87,287)	(204,319)	(296,271)
Principal paid on bond maturities and equipment contracts	(79,979)	(38,500)	(75,000)	(193,479)
Net cash (used in) capital and related financing activities	(84,644)	(125,787)	(279,319)	(489,750)
Net increase in cash and cash equivalents	-	174,808	-	174,808
Balances - beginning of the year	170	549,517	-	549,687
Balances - end of the year	170	724,325	-	724,495

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

Scotland County, North Carolina
Statement of Cash Flows
For the Year Ended June 30, 2012

	Business-type Activities			Totals June 30, 2012
	Enterprise Funds			
	Public Works Fund	Water District Phase I Fund	Water District Phase II Fund	
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	(202,099)	137,532	169,052	104,485
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	84,707	113,237	183,737	381,681
Provision for uncollectible accounts	-	(2,187)	(4,257)	(6,444)
Landfill closure and postclosure care costs	45,717	-	-	45,717
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	24,927	(3,941)	(5,231)	15,755
Increase (decrease) in accounts payable and accrued liabilities	(42,754)	6,326	(14,055)	(50,483)
(Decrease) in accrued vacation pay	(1,457)	(299)	-	(1,756)
Increase in OPEB payable	29,866	-	-	29,866
Total adjustment	141,006	113,136	160,194	414,336
Net cash provided by (used in) operating activities	<u>(61,093)</u>	<u>250,668</u>	<u>329,246</u>	<u>518,821</u>

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

Scotland County, North Carolina
Fiduciary Fund
 For the Year Ended June 30, 2012

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	<u>764,415</u>
Liabilities	
Miscellaneous liabilities	<u>764,415</u>

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

Scotland County, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012

I. Summary of Significant Accounting Policies

The accounting policies of Scotland County and its component units 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 seven-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. Scotland County Water District Phase I Fund and Scotland County Water District Phase II Fund (the *District*) exists to provide and maintain a water system for the county residents within the district. The Districts are reported as enterprise funds in the County's financial statements. Scotland County Industrial Facility and Pollution Control Financing Authority (the *Authority*) exists to issue and service revenue bond debt of private businesses for economic development purposes. The Authority has no financial transactions or account balances; therefore, it is not presented in the basic financial statements. Scotland County Historic Properties Commission and Scotland County ABC Board (the *Board*), both of which have a June 30 year-end, are presented as if they are separate proprietary funds of the County (discrete presentation). The blended presentation method presents component units as a department or unit of the County, and offers no separate presentation as with the discrete method.

Component Unit	Reporting Method	Criteria for Inclusion	Separate Financial Statements
Scotland County Water District I	Blended	Under State law [NCGS 162A-89], the County's board of commissioners also serve as the governing board for the Districts.	None issued.
Scotland County Water District II	Blended	Under State law [NCGS 162A-89], the County's board of commissioners also serve as the governing board for the Districts.	None issued.
Scotland County Industrial Facility and Pollution Control Financing Authority	Discrete	The Authority is governed by a seven-member board of commissioners that is appointed by the county commissioners. The County can remove any commissioner of the Authority with or without cause.	None issued.
Scotland County Historic Properties Commission	Discrete	The County's governing board appoints the members of the commission and has the ability to impose its will on the organization.	Scotland County Historic Properties Commission c/o Mr. Philip McRae, Chairperson P. O. Box 152 Laurinburg, NC 28353-0152
Scotland County ABC Board	Discrete	The members of the ABC Boards' 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.	Scotland County ABC Board Lauchwood Drive Laurinburg, NC 28352

B. Basis of Presentation, Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

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 and blended component units. Separate statements for each fund category - *governmental, 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 items such as investment earnings are ancillary activities.

The County reports 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 major enterprise funds:

Public Works Fund. This fund accounts for the operation, maintenance, and development of various landfills and disposal sites.

Scotland County Water District I Fund. This fund is used to account for the operations of the Water District I within the County.

Scotland County Water District II Fund. This fund is used to account for the operations of the Water District II within the County.

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; the Fines and Forfeitures Fund, which accounts for various legal fines and forfeitures that the County is required to remit to Scotland County Board of Education; and the Motor Vehicle Tax Fund, which accounts for registered motor vehicle property taxes that are billed and collected by the County for various municipalities and special districts within the County.

Nonmajor Funds. The County maintains six legally budgeted funds. Library Services Fund, Fire Service District Fund, Revaluation Fund and Emergency Telephone System Fund are reported as nonmajor special revenue funds. The Wagram Recreation Center and School Capital Projects Funds are reported as capital project funds.

Measurement Focus, 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, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for 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, entitlements, 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, entitlements, 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 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 the 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 judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. 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, Scotland County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the County. For those 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 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annually registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the staggered into the annual registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, 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.

C. 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, the Emergency Telephone, Fire District, and Revaluation Special Revenue Funds, and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Special Revenue Fund, the Capital Projects Fund, and the Enterprise Capital Projects Funds, which are consolidated with the enterprise operating funds for reporting purposes. 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 \$1,000. 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.

D. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the County, Scotland County ABC Board and Scotland County Historic Properties Commission are made in board-designated official depositories and are secured as required by G.S. 159-31. The County, the ABC Board, and the Historic Properties Commission may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also the County, the ABC Board, and the Historic Properties Commission 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, the ABC Board, and the Historic Properties Commission 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 and non-money market investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a 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.

2. Cash and Cash Equivalents

The County pools moneys from several funds, except the Pension Trust Fund, 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. The ABC Board and Scotland County Historic Properties Commission consider 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.

2.a Restricted Assets

Cash in the nonmajor special revenue and capital project governmental funds is restricted to that purpose which the fund was set up. See Page 69 for restricted purposes.

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 property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2011. As allowed by state law, the County has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the County's General Fund, ad valorem tax revenues are reported net of such discounts.

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. Inventories and Prepaid Items

The inventories of the ABC Board are valued at replacement cost, which approximates market. The County's General Fund shows no inventory, as expendable supplies are recorded as expenditures when purchased. The inventory of the ABC Board consists of material and supplies held for consumption or resale. The cost of the inventory carried in the ABC Board is recorded as an expense as it is consumed or sold.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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. 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. Minimum capitalization cost for land and all other assets is \$5,000.

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

	<u>Years</u>
Buildings	20
Improvements	20
Furniture and equipment	10
Vehicles	6
Computer equipment	3

Capital assets of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

	<u>Years</u>
Buildings	20
Furniture and equipment	10
Computers	3

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 Statement of Net Assets.

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

8. Compensated Absences

The vacation policies of the County and the ABC Board provide for the accumulation of up to thirty 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 units.

9. Net Assets/Fund Balances

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 (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through State statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

Restricted Fund Balance – This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization of State Statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Restricted for Fire Protection and Library Services - portion of fund balance that is restricted by revenue source for fire protection and library expenditures.

Restricted for School Capital - portion of fund balance that can only be used for School Capital per G.S. 159-18-22.

Committed Fund Balance – Portion of fund balance that can only be used for specific purpose imposed by majority vote of Scotland County's governing body (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

Committed for Tax Revaluation - portion of fund balance that can only be used for Tax Revaluation.

Assigned Fund Balance – portion of fund balance that the Scotland County governing board has budgeted.

Subsequent year’s expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

Assigned for Recreation Capital Outlay – portion of fund balance that has been budgeted by the board for the construction of new recreation center.

Assigned School Capital Outlay – portion of fund balance that has been budgeted by the board for future school capital construction.

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

E. 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 as reported in the government-wide statement of net assets. The net adjustment of \$(290,347) consists of several elements as follows:

Fixed assets	\$ 19,689,210
Less accumulated depreciation	(9,195,467)
Net capital assets	<u>\$ 10,493,743</u>
Deferred charges related to bond issuance cost included on government-wide statements of net assets but are not a current financial source of funds	3,000
Liabilities for revenue deferred but earned and therefore reported in the fund statements but not the government-wide	4,405,705
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:	
Bonds, leases, and installment financing	(10,635,271)
Compensated absences	(878,714)
Net pension obligation	(47,321)
Other post-employment benefits	<u>(3,631,489)</u>
	(15,192,795)
Total adjustment	<u>\$ (290,347)</u>

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 \$2,033,225 as follows:

Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the Statement of Activities	\$ 1,150,063
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.	(629,284)
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.	
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.	1,979,658
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.	
Amortization of bond issuance cost not recorded on fund statements.	(500)
Compensated absences	(4,591)
Other postemployment benefits	(790,371)
Revenues reported in the Statement of Activities that do not provide current resources are not recorded as revenues in the fund statements.	
Increase in deferred tax revenue at year end	328,250
Total adjustment	<u>\$ 2,033,225</u>

II. Stewardship, Compliance, and Accountability

A. Deficit in Net Assets

The Public Works Fund has negative Net Assets as of June 30, 2012 in the amount of \$1,400,690. A corrective action plan has been outlined in the compliance section of this report. (See significant deficiency 2012-1 in the Schedule of Findings and Questioned Costs).

III. Detail Notes on All Funds

A. Assets

1. Deposits

All of the County's, the Historic Properties Commission, 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, the Historic Properties Commission'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, the Historic Properties

Commission, 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, the Historic Properties Commission or the ABC Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County, the Historic Properties Commission or the ABC Board under the Pooling Method, the potential exists for undercollateralization, 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 Historic Properties Commission and ABC Board have no formal policy regarding custodial credit risk for deposits.

At June 30, 2012, the County's deposits had a carrying amount of \$3,330,254 and a bank balance of \$2,608,859. Of the bank balance \$598,574 was covered by federal depository insurance, and \$357,426 in non-interest bearing deposits and \$2,972,828 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2012, Scotland County had \$3,000 cash on hand.

At June 30, 2012, the carrying amount of deposits for Scotland County ABC Board was \$105,521 and the bank balance was \$112,840. All of the bank balance was covered by federal depository insurance.

At June 30, 2012, the carrying amount of deposits for Scotland County Historic Properties Commission was \$83,433 and the bank balance was \$83,433. All of the bank balance was covered by federal depository insurance.

The County has no policy regarding custodial credit risk for deposits.

2. Investments

At June 30, 2012, the County's investments consisted of \$4,005,203 in the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The County has no policy on credit risk.

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 the 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 the 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	Tax	Interest	Total
2009	666,082	38,300	704,382
2010	666,666	38,333	704,999
2011	668,690	38,450	707,140
2012	748,441	43,035	791,476
Total	<u>2,749,879</u>	<u>158,118</u>	<u>2,907,997</u>

4. Receivables

Receivables at the government-wide level at June 30, 2012, were as follows:

	Accounts	Taxes and Related Accrued Interest	Due from Other Funds/ Governments	Total
Governmental activities:				
General	\$ 581,581	\$ 4,636,701	\$ 1,646,200	\$ 6,864,482
Total receivables	581,581	4,636,701	1,646,200	\$ 6,864,482
Allowance for doubtful accounts	-	230,996	-	\$ -
Total - governmental activities	\$ 581,581	\$ 4,405,705	\$ 1,646,200	\$ 6,864,482
Business-type activities:				
Public works	\$ 102,185	\$ -	\$ -	\$ 102,185
Water district I	66,278	-	-	\$ 66,278
Water district II	53,368	-	-	\$ 53,368
Total - business-type activities	\$ 221,831	\$ -	\$ -	\$ 221,831

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

Local option sales tax/sales tax refunds	\$ 906,039
DSS reimbursements	498,421
Due from public works	241,740
	\$ 1,646,200

5. Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,352,082	\$ -	\$ -	\$ 1,352,082
Construction in progress	1,987,683	986,614	-	\$ 2,974,297
Total capital assets not being depreciated	3,339,765	986,614	-	\$ 4,326,379
Capital assets being depreciated:				
Buildings & improvements	9,377,896	-	-	\$ 9,377,896
Equipment	1,641,193	98,105	-	\$ 1,739,298
Vehicles and motor equipment	4,186,872	65,344	6,579	\$ 4,245,637
Total capital assets being depreciated	15,205,961	163,449	6,579	\$ 15,362,831
Less accumulated depreciation for:				
Buildings & improvements	4,124,482	219,373	-	\$ 4,343,855
Equipment	1,319,744	74,636	-	\$ 1,394,380
Vehicles and motor equipment	3,128,536	335,275	6,579	\$ 3,457,232
Total accumulated depreciation	\$ 8,572,762	\$ 629,284	\$ 6,579	\$ 9,195,467
Total capital assets being depreciated, net	6,633,199			\$ 6,167,364
Governmental activity capital assets, net	\$ 9,972,964			\$ 10,493,743

Primary Government

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

General government	\$ 178,021
Public safety	217,976
Central service	79,108
Human services	154,179
Total depreciation expense	\$ 629,284

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Landfill				
Capital assets not being depreciated:				
Land	\$ 314,334	\$ -	\$ -	\$ 314,334
Capital assets being depreciated:				
Buildings	867,187	-	-	\$ 867,187
Improvements	244,816	-	-	\$ 244,816
Furniture and maintenance equipment	2,086,307	-	-	\$ 2,086,307
Vehicles	404,903	-	-	\$ 404,903
Total capital assets being depreciated	3,603,213	-	-	\$ 3,603,213
Less accumulated depreciation for:				
Buildings	810,550	16,138	-	\$ 826,688
Improvements	244,816	-	-	\$ 244,816
Furniture and maintenance equipment	1,789,436	40,866	-	\$ 1,830,302
Vehicles	331,014	27,702	-	\$ 358,716
Total accumulated depreciation	\$ 3,175,816	\$ 84,706	\$ -	\$ 3,260,522
Total capital assets being depreciated, net	\$ 427,397			\$ 342,691
Landfill capital assets, net	\$ 741,731			\$ 657,025
Scotland County Water District I				
Capital assets being depreciated:				
Plant and distribution systems	4,529,450	-	-	\$ 4,529,450
Total capital assets being depreciated	4,529,450	-	-	\$ 4,529,450
Less accumulated depreciation for:				
Plant and distribution systems	1,675,736	113,236	-	\$ 1,788,972
Total accumulated depreciation	\$ 1,675,736	\$ 113,236	\$ -	\$ 1,788,972
Total capital assets being depreciated, net	\$ 2,853,714			\$ 2,740,478
Scotland County Water District I capital assets, net	\$ 2,853,714			\$ 2,740,478
Scotland County Water District II				
Capital assets being depreciated:				
Plant and distribution systems	7,349,440	-	-	\$ 7,349,440
Total capital assets being depreciated	7,349,440	-	-	\$ 7,349,440
Less accumulated depreciation for:				
Plant and distribution systems	\$ 1,225,342	183,736	-	\$ 1,409,078
Total accumulated depreciation	\$ 1,225,342	\$ 183,736	\$ -	\$ 1,409,078
Total capital assets being depreciated, net	\$ 6,124,098			\$ 5,940,362
Scotland County Water District II capital assets, net	\$ 6,124,098			\$ 5,940,362
Business-type activities capital assets, net	\$ 9,719,543			\$ 9,337,865

Discretely presented component units:

Activity for the ABC Board for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 19,000	\$ -	\$ -	\$ 19,000
Capital assets being depreciated:				
Buildings	187,383	-	-	187,383
Furniture and equipment	<u>72,112</u>	<u>-</u>	<u>-</u>	<u>72,112</u>
Total capital assets being depreciated	<u>259,495</u>			<u>259,495</u>
Total accumulated depreciation	<u>198,849</u>	<u>8,886</u>	<u>-</u>	<u>207,735</u>
ABC capital assets, net	<u>\$ 79,646</u>			<u>\$ 70,760</u>

Activity for the Scotland County Historic Properties Commission for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 195,000	\$ -	\$ -	\$ 195,000
Construction in progress	-	12,180	-	12,180
Historic buildings	<u>21,053</u>	<u>-</u>	<u>-</u>	<u>21,053</u>
Total capital assets not being depreciated	216,053	12,180	-	228,233
Capital assets being depreciated:				
Buildings	441,388	-	-	441,388
Furniture and equipment	<u>225,198</u>	<u>-</u>	<u>-</u>	<u>225,198</u>
Total capital assets being depreciated	666,586	-	-	666,586
Less accumulated depreciation				
Buildings	155,143	13,856	-	168,999
Equipment	<u>95,219</u>	<u>8,993</u>	<u>-</u>	<u>104,212</u>
Total accumulated depreciation	<u>250,362</u>	<u>22,849</u>	<u>-</u>	<u>273,211</u>
Commission capital assets, net	<u>\$ 632,277</u>			<u>\$ 621,608</u>

B. Liabilities

1. Payables & Accrued Liabilities

Payables at the government-wide level at June 30, 2012 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental activities:				
General	143,305	588,261	-	731,566
Other governmental	<u>3,327</u>	<u>-</u>	<u>-</u>	<u>3,327</u>
Total - governmental activities	<u>146,632</u>	<u>588,261</u>	<u>-</u>	<u>734,893</u>
Business-type activities:				
Public works	29,985	20,642	-	50,627
Water and sewer districts	<u>21,754</u>	<u>2,942</u>	<u>-</u>	<u>24,696</u>
Total - business-type activities	<u>51,739</u>	<u>23,584</u>	<u>-</u>	<u>75,323</u>

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. Scotland 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 6.99% and 7.05%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 11.58% of annual covered payroll. The contribution requirements of members and of Scotland 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, 2012, 2011 and 2010 were \$699,811, \$702,732, and \$470,502, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2012, 2011 and 2010 were \$28,784, \$32,033 and \$24,397, respectively. The contributions made by the County and the ABC Board equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description.*

Scotland 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 December 31, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	4
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>36</u>
Total	<u>40</u>

2. Summary of Significant Accounting Policies:

Basis of Accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the County has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

3. Contributions.

The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the County contributed \$48,805, or 3.75% of annual covered payroll. There were no contributions made by employees. The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings.

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2011 was 19 years.

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	51,936	121.29%	31,648
2011	62,763	97.10%	33,466
2012	62,660	77.49%	47,321

4. Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$554,274, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$554,274. The covered payroll (annual payroll of active employees covered by the plan) was \$1,303,055, and the ratio of the UAAL to the covered payroll was 42.54 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplemental Retirement Income Plan

1. 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. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. 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. 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, 2012 were \$112,011, which consisted of \$63,206 from the County and \$48,805 from the law enforcement officers.

(2) Other than Law Enforcement Officers

All employees, other than law enforcement officers, employed by the County participate in a Supplemental Retirement Income Plan, a defined contribution pension plan. Employees who have completed their probationary period and are enrolled in the Local Governmental Employees' Retirement System are eligible to participate in the Plan. For the year ended June 30, 2012, the governing body of the County authorized a contribution of 2.00% percent of employees' compensation to the Plan. Also, employees may make voluntary contributions to the Plan.

Total contributions for the year ended June 30, 2012 were \$352,472, which consisted of \$138,730 from the County and \$213,742 from the employees. The County's contributions and the employees' voluntary contributions represented 2.47 percent and 3.17 percent of the covered payroll amount, respectively.

d. Deferred Compensation Plan

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, which is available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. None of the County's employees are participating in the Plan.

e. Registers of Deeds' Supplemental Pension Fund

Plan Description. Scotland 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 eligible county register of deeds that is retired under the Local Governmental 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 one and one-half percent (1.5%) 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, 2012, the County's required and actual contributions were \$2,399.

f. Other Post Employment Benefit:

Healthcare Benefits

Plan Description. Under the terms of the Scotland County personnel policy approved by the Board of County Commissioners, the County administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). As of January 5, 1987, this plan provides postemployment healthcare benefits to retirees of the County. The County pays the full cost of coverage for these benefits through private insurers. Also, the County retirees have the option of continuing, at their own expense, any additional coverage for self and/or dependent(s) available with the County group. Dependent coverage will end when the dependent becomes eligible for another group health plan and the County's group life insurance plan.

Eligibility for Allowance. All regular full-time County employees and regular part-time employees who work at least thirty-two (32) hours per week, whose retirement under the provision of the North Carolina Local Government Employees' Retirement System is either through length of service, during which time at least fifteen (15) consecutive years are served with Scotland County prior to retirement, or disability, will continue to be covered on the County group health plan and the County's Group Life Insurance Plan.

For retirees whose hire date is on or after July 1, 2004, health coverage will end when retiree becomes eligible for medicare at age 65.

All elected County officials who have served two or more consecutive terms, or who retire under the North Carolina Local Governmental Employees' Retirement System, will continue to be carried on the County's group life insurance program.

Amount of Allowance. For those employees who retire with at least 15 years of consecutive years of service will be fully covered at their existing level of coverage at the time of retirement for the County's group health plan and the County's group life plan.

Membership of the HCB Plan consisted of the following at December 31, 2011, the date of the latest actuarial valuation:

Active Members	
Law enforcement officers	35
General employees	268
Retired members	<u>98</u>
Total	<u>401</u>

Funding Policy. The County pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a County resolution that can be amended by the Board of County Commissioners. The County members pay \$356.00 for EE/Spouse coverage, \$215.00 for EE/Child(ren) coverage. Only one (1) retiree carries dependent coverage and that is EE/Spouse. The County has chosen to fund the healthcare benefits on a pay as you go basis.

The current ARC rate is 14.96% of annual covered payroll. For the current year, the County contributed \$524,025 or 4.51% of annual covered payroll. The County obtains healthcare coverage through private insurers. The County's required contributions, under a County resolution, for employees not engaged in law enforcement and for law enforcement officers represented .36% and 5% of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage in the amount of \$6,790. The County's obligation to contribute to HCB Plan is established and may be amended by the County Board.

Summary of Significant Accounting Policies.

Postemployment expenditures are made from the General and Landfill Funds, which are maintained on the modified accrual and full accrual basis of accounting, respectively. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of the GASB Statement 45. That ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the County's annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation for the postemployment healthcare benefits:

Annual required contribution	1,314,300
Interest on net OPEB obligation	117,353
Adjustment to annual required contribution	<u>101,246</u>
Annual OPEB cost (expense)	1,330,407
Contributions made	<u>(524,025)</u>
Increase in net OPEB obligation	806,382
Net OPEB obligation, beginning of year	<u>2,933,834</u>
Net OPEB obligation, end of year	<u>3,740,216</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the HCB Plan, and the net OPEB obligation for 2012 were as follows:

For Year End June 30,	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
2010	512,281	73.44%	1,157,184
2011	1,357,375	29.29%	2,933,834
2012	1,330,407	35.57%	3,740,216

Funded Status and Funding Progress. As of December 31, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$19,691,716. The covered payroll (annual payroll of active employees covered by the plan) was \$10,484,956, and the ratio of the UAAL to the covered payroll was 187.81 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2011 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date. The medical cost trend rate varied between 9.50 and 5.00 percent. Both rates included a 3.00 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level of percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011 was 30 years.

g. Other Employment Benefits

The County has 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, 2012, the County made contributions to the State for death benefits of \$14,852. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 14% and 11% 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.

3. Closure and Postclosure Care Costs – Patterson Road Landfill Facility

State and federal laws and regulations require the County to place a final cover on its Patterson Road Landfill Facility when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,640,467 reported as landfill closure and postclosure care liability at June 30, 2012 represents a cumulative amount reported to-date based on the use of 75% of the total estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$1,325,767 as the remaining estimated capacity is filled. These amounts are based in what it would have cost to perform all closure and postclosure care in 2012. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County has met the requirements of a local government financial test that is one option under State and federal laws and regulations that helps determine if a unit is financially able to meet closure and postclosure care requirements.

Landfill Facility and Environmental Remediation

Over the next 29 years, environmental expenditures to insure the landfill is in compliance with environmental regulations are broadly estimated to be \$765,000. Because some of this estimated amount is expended every year and charged to various landfill expenses and the liability is broadly estimated, no liability is accrued at this time.

4. Deferred/Unearned Revenues

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

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Prepaid taxes not yet earned (General)	\$ -	\$ 227,543
Taxes receivable, net (General)	\$ 4,405,705	\$ -
Total	\$ 4,405,705	\$ 227,543

5. 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 three 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 \$24,557,100 for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence, workers' compensation coverage up to the statutory limits, and health and dental insurance for County employees. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request.

The County does not carry flood insurance. The County is not in a designated flood zone.

In accordance with G.S. 159-29, The County's employees that have access to \$100 or more at any given time of the County's funds are performance bonded through a commercial surety bond. The Director of Finance and tax collector are each individually bonded for \$50,000 each. All employees that have access to funds are bonded under a blanket bond for \$1,000,000.

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.

Scotland 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.

Scotland County Historic Properties Commission is exposed to various risks of loss related to torts, theft of, damage to, destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Historic Properties Commission carries commercial insurance for these 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.

6. Claims, Judgments and Contingent Liabilities

As of the date of this report, the County was a defendant to one lawsuit. Management believes the outcome will be insignificant on the County.

7. Long-Term Obligations

a. General Obligation Indebtedness

All general obligation bonds serviced by the County's General Fund are collateralized by the full faith, credit, and taxing power of the County. Scotland County issued general obligation bonds to provide funds for the acquisition and construction of two new schools. These bonds, which are recorded in the General Fund, are collateralized by the full faith, credit and taxing power of the County. Principal and interest payments are appropriated when due.

The County's general obligation bonds payable at June 30, 2012 are comprised of the following individual issues:

Serviced by the County's General Fund:

\$4,746,000 school series 2008 bonds due June 1 in installments of \$368,000 to \$488,000 through June 1, 2020; interest at 3.95%
(Replaced school series 1997) 3,058,000

\$6,690,000 school series 2009 bonds due June 1 in installments of \$325,000 to \$740,000 through June 1, 2020; interest at 3.95%
(Replaced school series 1998 and 1999) 4,620,000

Total 7,678,000

b. Installment Financing Contracts

\$350,000 2007 recreation center lighting project debt first payment due July 13, 2007 in monthly installments of \$4,766.38 through June, 2014; interest rate 3.89% 109,885

\$433,470 spec building project debt first and second payments of interest only due July 1, 2008 and July 01, 2009. Principal will amortize thereafter on July 1 until the loan is paid in full. Interest is 2% 147,387

\$3,000,000 Wagram Primary Expansion QSCB first payment due July 15, 2011 in yearly installments through July 15, 2020. Interest is 5.420% but reimbursed with tax credits 2,700,000

Total 2,957,272

TOTAL 10,635,272

c. Installment Financing Contracts – Solid Waste

\$240,000 landfill compactor debt first payment due February 2011; final payment due February 2013; Interest rate is 2.8750% 82,278

Total 82,278

Serviced by the County's Water District No. 1 and 2:

Water District Bonds outstanding at June 30, 2012 in the amount of \$6,484,500 are obligations of the water district, a blended component unit of the County and are not obligations of the County. Payments due on this debt are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	118,000	286,541
2014	124,000	281,273
2015	129,500	275,738
2016	134,500	269,956
2017	141,000	263,949
2018-2022	804,500	1,219,510
2023-2027	1,002,000	1,022,812
2028-2032	1,228,500	778,104
2033-2037	1,425,000	486,244
2038-2042	1,145,500	196,478
2043	<u>232,000</u>	<u>9,860</u>
TOTAL	<u>\$ 6,484,500</u>	<u>\$5,090,463</u>

Annual debt service requirements to maturity for the Landfills installment financing contract is as follows:

<u>Year Ending June 30</u>	<u>Landfill Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	<u>82,278</u>	<u>2,365</u>
TOTAL	<u>\$ 82,278</u>	<u>\$ 2,365</u>

Annual debt service requirements to maturity for the County's general obligation bonds and installment financing contracts are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	1,546,262	392,941
2014	1,387,009	343,043
2015	1,313,000	295,752
2016	1,295,000	250,416
2017	1,281,000	203,698
2018-2020	<u>3,813,000</u>	<u>336,204</u>
Total	<u>\$ 10,635,271</u>	<u>\$1,822,054</u>

At June 30, 2012, Scotland County had a legal debt margin of \$144,625,366.

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, 2012:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion of Balance
Governmental activities:					
General obligation debt	\$ 8,735,000	-	1,057,000	\$ 7,678,000	\$ 1,045,000
Installment financing	\$ 3,879,930	-	922,658	\$ 2,957,272	\$ 501,263
Net pension obligation	\$ 33,466	13,855	-	\$ 47,321	\$ -
Compensated absences	\$ 874,123	670,595	666,004	\$ 878,714	\$ -
Other postemployment benefits	\$ 2,854,974	776,515	-	\$ 3,631,489	\$ -
Total governmental activities	\$ 16,377,493	\$ 1,460,965	\$ 2,645,662	\$ 15,192,796	\$ 1,546,263
Business-type activities:					
Water and sewer districts					
General obligation debt	\$ 6,598,000	-	113,500	\$ 6,484,500	\$ 118,000
Compensated absences	\$ 4,406	3,959	4,258	\$ 4,107	\$ -
Total water and sewer activities	\$ 6,602,406	3,959	117,758	\$ 6,488,607	\$ 118,000
Landfill					
Accrued landfill closure and postclosure care costs	\$ 1,594,750	45,717	-	\$ 1,640,467	\$ -
Installment financing	\$ 162,257	-	79,979	\$ 82,278	\$ 82,278
Compensated absences	\$ 31,777	20,637	22,092	\$ 30,322	\$ -
Other postemployment benefits	\$ 78,861	29,866	-	\$ 108,727	\$ -
Total landfill activities	\$ 1,867,645	96,220	102,071	\$ 1,861,794	\$ 82,278
Total business-type activities	\$ 8,470,051	\$ 100,179	\$ 219,829	\$ 8,350,401	\$ 200,278

C. Interfund Balances and Activity

Transfers to/from other funds

Transfers to/from other funds at June 30, 2012, consist of the following:

From the General Fund to the:

Capital Reserve Fund to finance various capital expenditures	\$ 10,000
From the Library Special Revenue Fund to the general fund to close out project	\$ 151,448
Total	\$ 161,448

Due To and From Interfunds and Other Governments

General Fund:

Due from Solid Waste for cash used in operations Exhibit 3 \$ 241,740

Water District One:

Due from Water District Two for cash used in operations Exhibit 7 \$ 124,017

D. Fund Balance

Scotland County has a revenue spending policy that provides policy for programs with multiple revenue sources. The finance officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The finance office has the authority to deviate from this policy if it is in the best interest of the County.

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

Total fund balance - General Fund	\$ 5,938,069
Less:	
Stabilization by State Statute	2,227,782
Prepaid expenses	147,616
Remaining Fund Balance	3,562,671

IV. Jointly Governed Organization

The County, in conjunction with three other counties and twenty-three municipalities, established the Lumber River Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The County paid membership fees of \$26,203 to the Council during the fiscal year ended June 30, 2012.

Other Organizations

Richmond Community College, located at Hamlet, North Carolina, maintains a continuing education center in Laurinburg, North Carolina. The facility was deeded to Richmond Community College by the City of Laurinburg in 1987. Scotland County has no contractual obligation to provide financial support to Richmond Community College, has no equity interest but appoints two members of the governing board. The decision to honor requests for financial support by the college is discretionary with the Scotland County Board of Commissioners and is considered at budget consideration time. For the fiscal year ended June 30, 2012, Scotland County approved and paid the sum of \$230,000 to Richmond Community College.

V. Related Party Transactions

No significant transactions with related parties were detected during our audit.

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	\$44,371,642	\$25,583,254
Food stamp program	453,253	-
WIC	1,541,402	-
Title IV-E, foster care	236,733	26,846
Adult assistance	-	428,865
	<u>\$46,603,030</u>	<u>\$26,038,965</u>

VII. Summary Disclosure of Significant Commitments and 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.

VIII. Subsequent Events

Management has evaluated subsequent events through November 15, 2012 the date which the financial statements were available to be issued.

In fiscal year 2012-2013, the County plans to enter into a 15 year Energy Savings Contract for an estimated \$1,000,000 investment.

In fiscal year 2012-2013, the County plans to finance the administration building roof repair for \$165,000 and repair the landfill pad for \$100,000.

Required Supplemental Financial Data

This section contains additional information required by generally accepted accounting principles.

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Funding Progress for the Other Postemployment Benefits
- Schedule of Employer Contributions for the Other Postemployment Benefits
- Notes to the Required Schedules for the Other Postemployment Benefits

Scotland County, North Carolina
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12-31-06	-	512,929	512,929	0.00%	1,176,658	43.59%
12-31-07	-	495,150	495,150	0.00%	1,419,816	34.87%
12-31-08	-	495,412	495,412	0.00%	1,416,775	34.97%
12-31-09	-	619,248	619,248	0.00%	1,538,964	40.24%
12-31-10	-	578,307	578,307	0.00%	1,471,871	39.29%
12-31-11	-	554,274	554,274	0.00%	1,303,055	42.54%

Scotland County, North Carolina
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	52,216	107.92%
2010	51,530	122.25%
2011	62,875	96.93%
2012	48,805	77.49%

No employer contributions have been made due to the fact that the County has elected to fund the amounts necessary to provide the benefits earned by current appropriations.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	19 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25% - 7.85%
*Includes inflation at	3.00%
Cost-of-living adjustments	N/A

Scotland County, North Carolina
 Other Postemployment Benefits
 Required Supplementary Information
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/08	-	17,301,674	17,301,674	0%	9,416,098	183.75%
12/31/10	-	16,438,326	16,438,326	0%	10,834,980	151.70%
12/31/11	-	19,691,716	19,691,716	0%	10,134,986	194.30%

Scotland County, North Carolina
Other Postemployment Benefits
Required Supplementary Information
Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2010	512,281	73.44%
2011	1,346,537	29.52%
2012	1,314,300	39.87%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as follows:

Valuation date	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend	9.5% to 5.00%
Year of ultimate trend rate 2018	
*Includes inflation at	3.00%
Cost-of-living adjustments	None

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	<u>Budget</u>	<u>Actual</u>	
Revenues:			
Ad valorem taxes:			
Taxes		19,649,583	
Interest		284,487	
Total	19,722,655	19,934,070	211,415
Local option sales taxes:			
Article 39 one percent		2,292,846	
Article 40 one-half of one percent		1,658,586	
Article 42 one-half of one percent		1,222,983	
Article 44 one-half of one percent		227,816	
Total	5,081,414	5,402,231	320,817
Other taxes and licenses:			
Franchise tax	80,000	99,260	19,260
Unrestricted intergovernmental:			
Beer and wine tax		79,228	
ABC profit distribution		58,410	
Total	100,000	137,638	37,638
Restricted intergovernmental:			
State and federal grants		8,223,729	
Lottery proceeds		715,000	
Court facility fees		62,843	
Total	10,071,393	9,001,572	(1,069,821)
Permits and fees:			
Election fees		14,106	
Inspection fees		160,541	
Register of deeds		163,725	
Total	355,471	338,372	(17,099)

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	<u>Budget</u>	<u>Actual</u>	
Revenues - continued:			
Sales and services:			
Jail and other fees		164,452	
Ambulance fees		1,052,460	
Recreation fees		153,783	
Health department fees		<u>43,398</u>	
Total	1,227,014	1,414,093	187,079
Investment earnings	55,161	14,895	(40,266)
Fines, forfeitures	444,400	275,352	(169,048)
Miscellaneous:			
Private donations		4,211	
Sheriff dept. - surveillance - shared revenue		10,400	
Other		<u>358,468</u>	
Total	562,548	373,080	(189,468)
 Total revenues	 37,700,056	 36,990,562	 (709,494)

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	Positive (Negative)
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits		30,509	
Other operating expenditures		7,947	
Total	39,040	38,456	584
Administration:			
Salaries and employee benefits		561,501	
Other operating expenditures		11,670	
Total	589,135	573,171	15,964
Elections:			
Salaries and employee benefits		129,157	
Other operating expenditures		38,157	
Total	176,402	167,314	9,088
Tax:			
Salaries and employee benefits		505,953	
Other operating expenditures		130,427	
Total	693,484	636,380	57,104
Legal:			
Contracted services		51,765	
Total	51,765	51,765	-
Register of deeds:			
Salaries and employee benefits		173,061	
Other operating expenditures		28,579	
Total	217,595	201,640	15,955

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		
	Budget	Actual	Variance Positive (Negative)
Expenditures - continued:			
Court facilities:			
Other operating expenditures		3,973	
Total	105,000	3,973	101,027
Information technology:			
Salaries and employee benefits		90,066	
Other operating expenditures		46,727	
Capital outlay		5,047	
Total	202,612	141,840	60,772
Total general government	2,075,033	1,814,539	260,494
Public safety:			
Sheriff and communications:			
Salaries and employee benefits		2,128,606	
Other operating expenditures		153,132	
Capital outlay		65,344	
Total	2,502,546	2,347,083	155,463
Jail:			
Salaries and employee benefits		986,126	
Other operating expenditures		772,697	
Total	1,831,608	1,758,823	72,785
Emergency communications & services:			
Salaries and employee benefits		1,409,581	
Other operating expenditures		105,895	
Capital outlay		73,620	
Total	1,682,285	1,589,095	93,190
Forestry service	80,775	80,775	-

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	<u>Budget</u>	<u>Actual</u>	
Expenditures - continued:			
Inspections:			
Salaries and employee benefits		264,593	
Other operating expenditures		<u>15,552</u>	
Total	281,323	280,145	1,178
Planning & zoning:			
Salaries and employee benefits		350	
Other operating expenditures		<u>1,312</u>	
Total	2,651	1,662	989
Scotland County Rescue Squad	35,500	28,454	7,047
Scotland-Hoke Criminal Justice Partnership grant	153,190	153,190	-
Medical examiner	35,000	28,200	6,800
Animal control:			
Salaries and employee benefits		89,555	
Other operating expenditures		<u>8,169</u>	
Total	98,382	97,724	658
Humane society	104,500	100,949	3,551
Surveillance and drugs:			
Other operating expenditures		<u>5,500</u>	
Total	9,000	5,500	3,500
Total public safety	6,816,760	6,471,600	345,160

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	Positive (Negative)
Expenditures - continued:			
Central service:			
General:			
Other operating expenditures		453,821	
Total	466,539	453,821	12,718
Public buildings:			
Salaries and employee benefits		429,388	
Other operating expenditures		414,690	
Capital outlay		9,737	
Total	1,031,356	853,815	177,541
Total central service	1,497,895	1,307,636	190,259
Economic and physical development:			
Industry grants		545,250	
Region N-council of government		26,203	
SEDC		3,616	
Total	578,712	575,069	3,643
Co-op extension:			
Salaries and employee benefits		101	
Other operating expenditures		128,040	
Total	147,618	128,142	19,476
Soil and water conservation:			
Salaries and employee benefits		76,889	
Other operating expenditures		(913)	
Total	92,799	75,977	16,823
Total economic & physical development	819,129	779,187	39,942

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Expenditures - continued:			
Other expenditures:			
Juvenile counseling		213,766	
Historic Properties		18,000	
Total other expenditures	234,000	231,766	2,234
Human services:			
Health:			
Administration:			
Salaries and employee benefits		510,160	
Other operating expenditures		101,674	
Total	618,873	611,834	7,039
Tuberculosis:			
Salaries and employee benefits		17,196	
Other operating expenditures		3,714	
Total	25,223	20,911	4,312
Orthopedic		11,204	
Child health		110,962	
Primary care		102,690	
Communicable diseases		164,148	
Total	413,472	389,002	24,470
Family planning:			
Salaries and employee benefits		440,158	
Other operating expenditures		84,800	
Total	562,602	524,959	37,643

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	Positive (Negative)
Expenditures - continued:			
Maternal and child health:			
Salaries and employee benefits		954	
Other operating expenditures		17,655	
Total	18,362	18,609	(247)
Women, infants, and children:			
Salaries and employee benefits		299,984	
Other operating expenditures		19,759	
Total	342,900	319,743	23,157
Environmental health:			
Salaries and employee benefits		169,077	
Other operating expenditures		18,659	
Total	198,043	187,736	10,307
Child services coordinator:			
Salaries and employee benefits		76,882	
Other operating expenditures		2,780	
Total	96,900	79,663	17,237
MCC	144,734	121,695	23,039
Immunization:			
Salaries and employee benefits		21,964	
Other operating expenditures		1,277	
Total	25,165	23,241	1,924
Adult health:			
Salaries and employee benefits		47,992	
Other operating expenditures		4,979	
Total	53,630	52,971	659

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	Positive (Negative)
Expenditures - continued:			
Preparedness response:			
Salaries and employee benefits		16,198	
Other operating expenditures		12,771	
Total	38,288	28,968	9,320
Mental health:			
County participation cost		72,920	
ABC 5 cent bottle tax		6,458	
Total	80,920	79,378	1,542
Total health	2,619,112	2,458,710	160,402
Social services:			
Administration:			
Salaries and employee benefits		4,251,218	
Other operating expenditures		4,217,864	
Total	8,681,089	8,469,083	212,006
Transportation:			
Salaries and employee benefits		310,658	
Other operating expenditures		97,438	
Total	492,196	408,096	84,100
Total social services	9,173,285	8,877,178	296,107

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance
	<u>Budget</u>	<u>Actual</u>	Positive (Negative)
Expenditures - continued:			
Veterans service officer:			
Salaries and employee benefits		43,833	
Other operating expenditures		18,681	
Total	63,877	62,514	1,363
Total human services	11,856,274	11,398,402	457,872
Cultural and recreational:			
Recreation:			
Salaries and employee benefits		370,916	
Other operating expenditures		181,633	
Total	607,005	552,550	54,455
Libraries:			
Salaries and employee benefits		228,414	
Other operating expenditures		125,336	
Total	367,701	353,750	13,951
Total cultural and recreational	974,706	906,299	68,407

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	Positive (Negative)
Expenditures - continued:			
Education:			
Public schools - current expense		10,206,464	
Public schools - lottery-capital outlay		415,000	
Fines and forfeitures		273,452	
Community colleges - current		230,000	
Total education	11,141,189	11,124,916	16,273
Debt service:			
Principal retirement		1,979,658	
Interest and fees, other		294,478	
Total debt service	2,436,738	2,274,136	162,602
Total expenditures	37,851,724	36,308,482	1,543,242
Revenues over (under) expenditures	(151,668)	682,081	833,749

Scotland County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	<u>2012</u>		
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Other financing sources (uses):			
Operating transfers to other funds:			
Special revenue funds revaluation	(10,000)	(10,000)	
Capital projects		<u>151,448</u>	
Total other financing sources (uses)	(10,000)	141,448	151,448
Appropriated fund balance	<u>161,668</u>	<u>-</u>	<u>(161,668)</u>
Revenues, other sources and appropriated fund balance over expenditures and other uses	<u>-</u>	823,529	<u>823,529</u>
Fund balances:			
Beginning of year, July 1		<u>5,114,540</u>	
End of year, June 30		<u>5,938,069</u>	

Scotland County, North Carolina
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2012

	Special Revenue Funds					Capital Project Funds				Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds	
	Library Services Fund	Fire Service District Fund	Revaluation Fund	Emergency Telephone System Fund	Nonmajor Special Revenue Funds	Wagram Recreation Center Fund	School Capital Projects Fund					
Assets												
Cash and cash equivalents	-	-	16,361	-	16,361	-	-	-	12,053	-	12,053	28,414
Restricted cash	7,528	637,472	-	625,577	1,270,577	-	28,777	-	28,777	-	28,777	1,299,354
Prepaid expense	-	1,155	-	-	1,155	-	-	-	-	-	-	1,155
Due from other governments	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	7,528	638,627	16,361	625,577	1,288,093	12,053	28,777	-	40,830	-	40,830	1,328,923
Liabilities & fund balances												
Liabilities:												
Accounts payable & accrued liabilities	-	-	3,327	-	3,327	-	-	-	-	-	-	3,327
Interfund payables	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	3,327	-	3,327	-	-	-	-	-	-	3,327
Fund balances:												
Nonexpendable:												
Prepaid expenses	-	1,155	-	-	1,155	-	-	-	-	-	-	1,155
Restricted for:												
Fire protection	-	637,472	-	-	637,472	-	-	-	-	-	-	637,472
School capital	-	-	-	-	-	-	28,777	-	28,777	-	28,777	28,777
Emergency telephone recreation project	-	-	-	625,577	625,577	-	-	-	-	-	-	625,577
Library services	7,528	-	-	-	-	-	-	-	12,053	-	-	12,053
Committed:												
Revaluation	-	-	13,034	-	13,034	-	-	-	-	-	-	13,034
Unassigned	-	-	-	-	-	-	-	-	-	-	-	-
Total fund balances	7,528	638,627	13,034	625,577	1,284,766	12,053	28,777	-	40,830	-	40,830	1,325,596
Total liabilities and fund balances	7,528	638,627	16,361	625,577	1,288,093	12,053	28,777	-	40,830	-	40,830	1,328,923

Scotland County, North Carolina
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2012

	Special Revenue Funds					Capital Project Funds				Total Nonmajor Governmental Funds
	Library Services Fund	Fire Service District Fund	Revaluation Fund	Emergency Telephone System Fund	Nonmajor Special Revenue Funds	Wagram Recreation Center	School Capital Projects Fund	Nonmajor Capital Project Funds	Total	
Revenues:										
Ad valorem taxes	-	221,931	-	-	221,931	-	-	-	-	221,931
Other taxes, licenses & fees	1,099	866	-	199,031	200,996	-	-	-	-	200,996
Sales tax	-	59,000	-	-	59,000	-	-	-	-	59,000
Investment earnings	206	3,918	-	-	4,124	-	3,075	3,075	-	7,199
Total revenues	1,305	285,715	-	199,031	486,051	-	3,075	3,075	-	489,126
Expenditures:										
Revaluation	-	-	12	-	12	-	-	-	-	12
Public safety	-	218,792	-	648,899	867,691	-	-	-	-	867,691
Cultural and recreational	1,001	-	-	-	1,001	-	986,615	986,615	-	987,616
Capital outlay	-	-	-	9,701	9,701	-	-	-	-	9,701
Total expenditures	1,001	218,792	12	658,600	878,405	-	986,615	986,615	-	1,865,020
Revenues over (under) expenditures	304	66,923	(12)	(459,569)	(392,354)	-	(983,540)	(983,540)	-	(1,375,894)
Other financing sources and uses:										
Transfers (to) from other funds	(151,448)	-	10,000	-	(141,448)	-	-	-	-	(141,448)
Total other financing sources	(151,448)	-	10,000	-	(141,448)	-	-	-	-	(141,448)
Net change in fund balances	(151,144)	66,923	9,988	(459,569)	(533,802)	-	(983,540)	(983,540)	-	(1,517,342)
Fund balances - beginning	158,672	571,704	3,046	1,085,146	1,818,568	12,053	1,012,317	1,024,370	1,024,370	2,842,938
Fund balances - ending	7,528	638,627	13,034	625,577	1,284,766	12,053	28,777	40,830	40,830	1,325,596

Scotland County, North Carolina
Library Services Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Licenses & fees	1,100	1,099	(1)
Interest earnings	<u>900</u>	<u>206</u>	<u>(694)</u>
Total revenues	<u>2,000</u>	<u>1,305</u>	<u>(695)</u>
Expenditures:			
Cultural and recreational	<u>2,000</u>	<u>1,001</u>	<u>999</u>
Total expenditures	<u>2,000</u>	<u>1,001</u>	<u>999</u>
Revenues over expenditures	<u>-</u>	<u>304</u>	<u>304</u>
Other financing sources:			
Transfer out to general fund	<u>(151,448)</u>	<u>(151,448)</u>	<u>-</u>
Appropriated fund balance	<u>151,448</u>	<u>-</u>	<u>(151,448)</u>
Net change in fund balances	<u>-</u>	<u>(151,144)</u>	<u>(151,144)</u>
Fund balances - beginning		<u>158,672</u>	
Fund balances - ending		<u>7,528</u>	

Scotland County, North Carolina
Fire Service District Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes	216,000	221,931	5,931
Other taxes, licenses & fees	6,500	866	(5,634)
Sales tax	55,000	59,000	4,000
Investment earnings	<u>2,500</u>	<u>3,918</u>	<u>1,418</u>
Total revenues	280,000	285,715	5,715
Expenditures:			
Public safety	<u>280,000</u>	<u>218,792</u>	61,208
Total expenditures	280,000	218,792	61,208
Revenues over expenditures	<u>-</u>	66,923	<u>66,923</u>
Fund balances - beginning		<u>571,704</u>	
Fund balances - ending		<u>638,627</u>	

Scotland County, North Carolina
Revaluation Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Fiscal Year Ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
None	<u>-</u>	<u>-</u>	<u>-</u>
	-	-	-
Expenditures:			
Revaluation	<u>10,000</u>	<u>12</u>	<u>9,988</u>
Revenues over (under) expenditures	<u>(10,000)</u>	<u>(12)</u>	<u>9,988</u>
Other financing sources:			
Transfers:			
General Fund	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total other financing sources	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Revenues and other sources over expenditures	<u>-</u>	<u>9,988</u>	<u>9,988</u>
Fund balances - beginning		<u>3,046</u>	
Fund balances - ending		<u>13,034</u>	

Scotland County, North Carolina
Emergency Telephone System Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other taxes, licenses & fees	192,747	199,031	6,284
Other grants	642,064	-	(642,064)
Interest	13,000	-	(13,000)
Total revenues	<u>847,811</u>	<u>199,031</u>	<u>(648,780)</u>
Expenditures:			
Public safety	1,138,064	658,600	479,464
Total expenditures	<u>1,138,064</u>	<u>658,600</u>	<u>479,464</u>
Revenues (under) expenditures	(290,253)	(459,569)	(169,316)
Appropriated fund balance	<u>290,253</u>	-	<u>(290,253)</u>
Revenues and appropriated fund balance (under) expenditures	<u>-</u>	(459,569)	<u>(459,569)</u>
Fund balances - beginning		<u>1,085,146</u>	
Fund balances - ending		<u>625,577</u>	

Scotland County, North Carolina
Wagram Recreation Center
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2012

	Project Authorization	Acutal		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental	500,000	487,246	-	487,246	(12,754)
Total revenues	<u>500,000</u>	<u>487,246</u>	<u>-</u>	<u>487,246</u>	<u>(12,754)</u>
Expenditures:					
Cultural and recreational	1,350,000	975,194	-	975,194	374,806
Total expenditures	<u>1,350,000</u>	<u>975,194</u>	<u>-</u>	<u>975,194</u>	<u>374,806</u>
Revenues over (under) expenditures	(850,000)	(487,948)	-	(487,948)	362,052
Other financing sources:					
Installment financing	350,000	-	-	-	(350,000)
Transfers from:					
General Fund	500,000	500,000	-	500,000	-
Total other financing sources	<u>850,000</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>(350,000)</u>
Revenues and other sources over expenditures	<u>-</u>	<u>12,052</u>	<u>-</u>	<u>12,052</u>	<u>12,052</u>
Fund balances - beginning			<u>12,053</u>		
Fund balances - ending			<u>12,053</u>		

Scotland County, North Carolina
School Capital Projects
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual

From Inception and for the Fiscal Year Ended June 30, 2012

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Investment earnings	-	-	3,075	3,075	3,075
Total revenues	-	-	3,075	3,075	3,075
Expenditures:					
Wagram Educational Building	3,000,000	1,987,683	986,615	2,974,298	25,702
Total expenditures	3,000,000	1,987,683	986,615	2,974,298	25,702
Revenues over (under) expenditures	(3,000,000)	(1,987,683)	(983,540)	(2,971,223)	28,777
Other financing sources:					
Installment financing	3,000,000	3,000,000	(983,540)	2,016,460	(983,540)
Total other financing sources	3,000,000	3,000,000	(983,540)	2,016,460	(983,540)
Revenues and other sources over (under) expenditures	-	1,012,317	(983,540)	(954,763)	(954,763)
Fund balances - beginning			1,012,317		
Fund balances - ending			28,777		

Scotland County, North Carolina
Public Works
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2012

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services:			
Tipping fees		1,296,794	
Other operating revenues		168,358	
Total operating revenues	1,855,218	1,465,152	(390,066)
Expenditures:			
Operating expenses:			
Salaries & employee benefits		489,211	
Supplies		12,381	
Repairs & maintenance		66,403	
Contracted services		74,925	
Waste disposal		614,538	
Other operating expenditures		252,113	
Total operating expenses	1,770,574	1,509,571	261,003
Debt service:			
Interest		4,665	
Debt principal		79,979	
Total	84,644	84,644	-
Capital outlays			
None	-	-	-
Total expenditures	1,855,218	1,594,215	261,003
Revenues (under) expenditures	-	(129,062)	(129,062)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Debt principal		79,979	
Depreciation		(84,707)	
Decrease in accrued vacation		2,609	
(Increase) in accrued landfill closure and postclosure costs		(45,717)	
(Increase) in accrued OPEB liability		(29,866)	
Total reconciling items		(77,702)	
Net (loss)		(206,764)	

Scotland County, North Carolina
Water District Phase I Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2012

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services:			
Water sales		662,032	
Water taps		-	
Total operating revenues	651,000	662,032	11,032
Expenditures:			
Operating expenses:			
Salaries and employee benefits		64,168	
Water purchases		219,637	
Other operating expenditures		129,943	
Total operating expenses	525,200	413,748	111,452
Debt service:			
Principal retirement		38,500	
Interest		87,287	
Total	125,800	125,787	13
Total expenditures	651,000	539,535	111,465
Revenues over expenditures	-	122,497	122,497
Reconciliation from budgetary basis			
(modified accrual) to full accrual:			
Reconciling items:			
Principal payment		38,500	
Depreciation		(113,237)	
Bad debts		2,187	
Decrease in accrued vacation		299	
Total reconciling items		(72,252)	
Net income		50,245	

Scotland County, North Carolina
Water District Phase II Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Water sales		380,986	
Sewer fees		<u>162,904</u>	
Total operating revenues	553,000	543,890	(9,110)
Expenditures:			
Operating expenses:			
Water purchases		118,647	
Water operations		<u>76,711</u>	
Total operating expenses	273,680	195,358	78,322
Debt service:			
Debt principal		75,000	
Interest		<u>204,319</u>	
Total	279,320	279,319	1
Total expenditures	553,000	474,677	78,323
Revenues over expenditures	<u>-</u>	69,213	<u>69,213</u>
Reconciliation from budgetary basis			
(modified accrual) to full accrual:			
Reconciling items:			
Principal payments		75,000	
Depreciation		(183,737)	
Bad debts		<u>4,257</u>	
Total reconciling items		(104,480)	
Change in net assets		<u>(35,267)</u>	

OTHER SCHEDULES

Scotland County, North Carolina
Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Social Services				
Assets:				
Cash & cash equivalents	24,300	211,324	191,070	44,555
Liabilities:				
Miscellaneous liabilities	24,300	211,324	191,070	44,555
Fines and Forfeitures				
Assets:				
Cash & cash equivalents	6,212	572,433	565,411	13,234
Liabilities:				
Intergovernmental payable	-	273,452	273,452	-
Other tax	3,831	267,627	260,845	10,613
NC Division of Motor Vehicles	2,381	31,354	31,114	2,621
Total liabilities	6,212	572,433	565,411	13,234
Motor Vehicle Tax				
Assets:				
Cash & cash equivalents	28,650	359,657	358,879	29,427
Liabilities:				
Miscellaneous liabilities	28,650	359,657	358,879	29,427
Inmate Trust Fund				
Assets:				
Cash	41,649	92,853	102,076	32,426
Liabilities:				
Inmate funds	41,649	92,853	102,076	32,426
Tourism Development Fund				
Assets:				
Cash	199,495	345,473	310,244	234,724
Liabilities:				
Miscellaneous liabilities	199,495	345,473	310,244	234,724

Scotland County, North Carolina
Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Scotland Economic Development				
Assets:				
Cash	430,336	208,856	258,656	380,535
Liabilities:				
Miscellaneous liabilities	430,336	208,856	258,656	380,535
FCC Water Grant				
Assets:				
Cash	-	29,513	-	29,513
Liabilities:				
Miscellaneous liabilities	-	29,513	-	29,513
Totals - All Agency Funds				
Assets:				
Cash & cash equivalents	730,642	1,820,109	1,786,336	764,415
Liabilities:				
Miscellaneous liabilities	728,261	1,515,303	1,481,770	761,794
Intergovernmental payable	-	273,452	273,452	-
NC Division of Motor Vehicles	2,381	31,354	31,114	2,621
Total liabilities	730,642	1,820,109	1,786,336	764,415

Scotland County, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2012

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2011</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2012</u>
2011-2012	\$ -	\$ 20,097,575	\$ 18,484,374	\$ 1,613,201
2010-2011	\$ 1,461,807	\$ -	\$ 805,602	\$ 656,205
2009-2010	\$ 728,593	\$ -	\$ 197,245	\$ 531,348
2008-2009	\$ 476,571	\$ -	\$ 128,901	\$ 347,670
2007-2008	\$ 366,169	\$ -	\$ 54,966	\$ 311,203
2006-2007	\$ 288,107	\$ -	\$ 32,271	\$ 255,836
2005-2006	\$ 261,420	\$ -	\$ 23,801	\$ 237,619
2004-2005	\$ 201,351	\$ -	\$ 20,248	\$ 181,103
2003-2004	\$ 157,623	\$ -	\$ 9,342	\$ 148,281
2002-2003	\$ 137,494	\$ -	\$ 6,221	\$ 131,273
2001-2002	\$ 115,141	\$ -	\$ 5,757	\$ 109,384
2000-2001	\$ 117,194	\$ -	\$ 3,620	\$ 113,574
Total	\$ 4,311,470	\$ 20,097,575	\$ 19,772,348	\$ 4,636,697
				Less allowance for uncollectible accounts
				\$ (230,996)
				Ad valorem taxes receivable - net
				\$ 4,405,701
<u>Reconcilement with revenues:</u>				
				Ad valorem taxes
				\$ 19,934,070
				Penalties collected on ad valorem taxes
				\$ 7,510
				Reconciling items:
				Interest only collected
				\$ (284,487)
				Discounts
				\$ 91,141
				Taxes released
				\$ 21,540
				Discovery fees
				\$ 2,575
				Total reconciling items
				\$ (169,232)
				Total collections and credits
				<u>\$ 19,772,348</u>

Scotland County, North Carolina
 Analysis of Current Tax Levy
 County-wide Levy
 For the Fiscal Year Ended June 30, 2012

	County-wide Property Valuation	Rate	Amount of Levy	Total Levy Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy	1,837,202,200	\$0.99	18,188,302	18,188,302	-
Property taxed at current year's rate	61,111,212	\$0.99	605,001	-	605,001
Property taxes at prior year's rate	143,090,196	\$1.02	1,459,520	-	1,459,520
Penalties & advertising	-		28,515	28,515	-
Total	<u>2,041,403,608</u>		<u>20,281,338</u>	<u>18,216,817</u>	<u>2,064,521</u>
Abatements	<u>(18,560,909)</u>		<u>(183,763)</u>	<u>(128,175)</u>	<u>(55,588)</u>
Total property valuations	<u><u>2,022,842,699</u></u>				
Net levy			20,097,575	18,088,642	2,008,933
Uncollected taxes at June 30, 2012			<u>1,613,201</u>	<u>1,111,192</u>	<u>502,009</u>
Current year's taxes collected			<u>18,484,374</u>	<u>16,977,450</u>	<u>1,506,924</u>
Current year collection percentage			91.98%	93.86%	75.01%

Scotland County, North Carolina
 Analysis of Current Tax Levy
 County-wide Levy
 For the Fiscal Year Ended June 30, 2012

Secondary market disclosures:

Assessed valuation:

Assessment ratio ¹		100%
Real property	\$	1,441,793,375
Personal property		503,773,253
Public service companies ²		<u>77,276,071</u>
Total assessed valuation		2,022,842,699
Tax rate per \$100	\$	1,879,783,091
		0.99
Tax rate per \$100	\$	143,059,608
		1.02
Levy (includes discoveries, releases and abatements) ³	\$	20,097,575

In addition to the County-wide rate, the following table lists the levies by the County on behalf of the fire service district for the fiscal year ended June 30:

Fire protection districts		<u>\$ 206,020</u>
Total		<u>\$ 206,020</u>

¹Percentage of appraised value has been established by statute.

²Valuation of railroads, telephone companies and other utilities as determined by the North Carolina Property Tax Commission.

³The levy includes interest and penalties.

Scotland County, North Carolina
 Ten Largest Taxpayers
 For the Fiscal Year Ended June 30, 2012

<u>Taxpayer</u>	<u>Type of Business</u>	2012 Assessed Valuation	Percentage of Total Assessed Valuation
Pilkington North America	Manufacturing	\$ 92,437,760	4.57%
Progress Energy	Utility	44,074,329	2.18%
FCC North Carolina, Inc.	Manufacturing	30,695,342	1.52%
Kordsa	Manufacturing	26,518,479	1.31%
CSX	Railroad	23,701,901	1.17%
QualPack, LLC	Manufacturing	23,030,728	1.14%
Lumbee River EMC	Utility	22,636,162	1.12%
Carroll's Realty	Farm	22,456,629	1.11%
WP Properties	Real Estate	18,273,455	0.90%
Bellsouth	Utility	<u>15,163,936</u>	<u>0.75%</u>
Total		<u>\$ 318,988,721</u>	<u>15.77%</u>

COMPLIANCE SECTION

Gustaf C. Lundin & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS

CREECH BUILDING - 105 EAST RAILROAD STREET

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**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
Scotland 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 aggregated remaining fund information of Scotland County, North Carolina, as of and for the year ended June 30, 2012, which collectively comprises Scotland County's basic financial statements, and have issued our report thereon dated November 15, 2012. Our report includes a reference to other auditors. 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. Other auditors audited the financial statement of the Scotland County ABC Board, as described in our report on Scotland County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Scotland County ABC Board were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

Management of Scotland County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Scotland County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Scotland County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control financial reporting described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. *See significant deficiencies 2012-1 and 2012-2.* A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Scotland 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 Scotland County in a separate letter dated November 15, 2012.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the County's response and accordingly, we express no opinion on it.

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

Gustaf C. Lundin & Company, LLP
GUSTAF C. LUNDIN & COMPANY, LLP

November 15, 2012

Gustaf C. Lundin & Company, LLP

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

To the Board of County Commissioners
Scotland County, North Carolina

Compliance

We have audited the compliance of Scotland County, North Carolina, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Scotland County's major federal programs for the year ended June 30, 2012. Scotland 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 Scotland County's management. Our responsibility is to express an opinion on Scotland 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 Scotland 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 Scotland County's compliance with those requirements.

In our opinion, Scotland County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Scotland 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 Scotland 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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular 133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

This report is intended solely for the information and use of the audit committee, management, others within the entity, members of the Board of County 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 specific parties.

Gustaf C. Lundin & Company, LLP
GUSTAF C. LUNDIN & COMPANY, LLP

November 15, 2012

Gustaf C. Lundin & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of County Commissioners
Scotland County, North Carolina

Compliance

We have audited the compliance of Scotland County, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012. Scotland County's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Scotland County's management. Our responsibility is to express an opinion on Scotland 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; applicable sections of OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about Scotland 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 Scotland County's compliance with those requirements.

In our opinion, Scotland County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of management, others within the organization, members of the Board of County 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 specific parties.

Gustaf C. Lundin + Company, LLP
GUSTAF C. LUNDIN & COMPANY, LLP

November 15, 2012

SCOTLAND COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

* Material weakness(es) identified?	_____yes	___X___no
* Significant deficiencies identified that are not considered to be material weaknesses	___X___yes	_____none reported
Noncompliance material to financial statements noted	_____yes	___X___no

Federal Awards

Internal control over major federal programs:

* Material weakness(es) identified?	_____yes	___X___no
* Significant deficiencies identified that are not considered to be material weaknesses	_____yes	___X___none reported

Type of auditor's report issued on compliance for major federal programs:
Unqualified, for all federal programs.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	_____yes	___X___no
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SCOTLAND COUNTY, NORTH CAROLINA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2012

Identification of major federal programs:

<u>CFDA #</u>	<u>Program Name</u>
93.767	NC Health Choice (Chip)
93.778	Medicaid

Dollar threshold used to distinguish
 between Type A and Type B Programs \$1,572,097

Auditee qualified as low-risk auditee? _____yes ___X___no

State Awards

Internal control over major State programs:

* Material weakness(es) identified? _____yes ___X___no

* Significant deficiencies identified
 that are not considered to be
 material weaknesses _____yes ___X___none reported

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

Any audit findings disclosed that are required
 to be reported in accordance with State
 Single Audit Implementation Act _____yes ___X___no

Identification of major State programs:

<u>Program Name</u>
Medicaid
NC Health Choice (Chip)

SCOTLAND COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

Section II - Financial Statement Findings

Finding: 2012-1

SIGNIFICANT DEFICIENCY

Criteria: Any individual funds with deficits in fund balances or net assets should be disclosed with a corrective action plan. Currently the Public Works Fund has a deficit in its net assets.

Condition: The Public Works Fund has a deficit in net assets due to an accrual of landfill closure and postclosure cost and lack of a revenue stream sufficient to offset the deficit.

Effect: The County could continue to increase the deficit in the Public Works Fund if new revenue streams are not found.

Cause: The County has not generated enough revenue to offset the closure and postclosure cost to offset the deficit within the Public Works Fund.

Recommendation: Scotland County management should continue to search for new revenue streams and cost cutting measures in order to continuously reduce the deficit in the Public Works Fund.

SCOTLAND COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

Section II - Financial Statement Findings

Finding: 2012-2

SIGNIFICANT DEFICIENCY

Criteria: Conditions necessitating the entity's auditor to assist in preparation of the schedule of expenditures of federal and state awards in order to prevent misstatements are indicative of a significant deficiency.

Condition: Currently we (independent auditors) assist in information gathering for preparation of the schedule of expenditures of federal and state awards. We believe our involvement in information gathering for preparation of the schedule is necessary to prevent errors in the schedule and therefore indicates a significant deficiency.

Effect: Errors could pass through the schedule of expenditures of federal and state awards.

Recommendation: Internal procedures should be strengthened for gathering and reviewing information for preparation of the schedule at year end. Confirmations located at the DHHS website should be utilized to assist in ensuring accuracy of the schedule.

Views of responsible officials and planned corrective actions: The County agrees with this finding.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2012

Section II - Financial Statement Findings

Finding: 2012-1

Name of contact person: Charles Nichols-Finance Officer

Corrective Action: The County has reduced staff in public works and is exploring means of reducing expenditures and seeking new revenue streams.

Proposed Completion Date: Immediately.

Finding: 2012-2

Name of contact person: Charles Nichols-Finance Officer

Corrective Action: Information gathering procedures and controls are implemented.

Proposed Completion Date: At the date of this report the corrective action was implemented.

CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2012

Section III - Federal Award Findings and Questioned Costs

None reported

Section IV - State Award Findings and Questioned Costs

None reported

SCOTLAND COUNTY
SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2012

Prior Year Financial Statements Findings

Finding 2011-1

Status: See current year finding 2012-1.

Finding 2011-2

Status: No overexpenditures were noted.

Finding 2011-3

Status: Financial statement and journal entry controls have improved significantly, new procedures have been implemented for schedule of expenditures of federal and state awards. See current finding 2012-2.

Scotland County
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2012

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
Federal Awards:					
U.S. Dept. of Agriculture					
Food and Nutrition Service					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Administration:					
Supplemental Nutrition Assist. Program Cluster					
State Administrative Matching Grants for					
	10,561		421,764	-	377,468
the Supplemental Nutrition Assistance Program					
ARRA--State Administrative Matching Grants for					
the Supplemental Nutrition Assistance Program					
	10,561		31,489	-	-
Supplemental Nutrition Assist. Program Cluster					
<hr/>					
			453,253	-	377,468
<hr/>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Public Health:					
Administration:					
Special Supplemental Nutrition Program for					
	10,557		339,863	-	-
Women, Infants, & Children					
	10,559		-	-	-
AGRI-SFP Food Program Meal					
Direct Benefit Payments:					
Special Supplemental Nutrition Program for					
	10,557		1,201,539	-	-
Women, Infants, & Children					
<hr/>					
Total U.S. Dept. of Agriculture					
			1,994,655	-	377,468

Scotland County
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2012

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Department of Housing and Urban Development Passed-Through the NC Department of Commerce CDBG	14.218	08-c-1837	-	-	-
SFR	14.239	SFR0917	-	-	-
Total NC Dept. of Commerce			-	-	-
US Department of Transportation Passed-Through the NC Department of Transportation Rural Operating Assistance Program (ROAP)	20.509		130,875	8,179	-
Nonurbanized Area Formula Grant	20.6		35,594	-	-
State and Community Highway Safety			166,469	8,179	-
Total U.S. Dept. of Transportation			-	-	-
U.S. Department of Health & Human Services Administration for Children and Families Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Foster Care and Adoption Cluster (Note 2)	93.658		236,733	26,846	209,887
Title IV-E Foster Care - Administration	93.658		227,779	60,588	65,408
Foster Care - Direct Benefit Payments	93.659		-	-	-
IV-E Adoption Optional Admin.	93.659		243,247	65,128	65,128
Adoption Assistance - Direct Benefit Payments			707,759	152,562	340,423
Total Foster Care and Adoption (Note 2)			-	-	-

Scotland County
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2012

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
<u>Temporary Assistance for Needy Families Cluster</u>					
Temporary Assistance for Needy Families	93.558		8,856	-	-
Work First/TANF-Direct Benefit Payments	93.558		837,545	-	631
TANF Contingency	93.558		7,503	1,876	-
Total TANF Cluster			853,904	1,876	631
<u>Special Children Adoption</u>					
NC Child Support Enforcement Section	93.558		84,000	-	-
IV-D Administration	93.563		643,275	-	331,384
IV-D Offset Fees	93.563		4,582	-	2,560
CSE Incentive Recovery	93.563		-	-	-
<u>Low-Income Home Energy Assistance Block Grant:</u>					
Administration	93.568		59,398	-	-
Energy Assistance Payments- Direct Benefit Payments	93.568		125,809	-	-
Crisis Intervention Program	93.568		528,909	-	-
<u>Child Welfare Services - State Grants</u>					
- Permanency Planning	93.645		9,191	1,298	3,496
Independent Living-Transitional Grant	93.674		-	-	-
Transitional Funds	93.674		10,186	2,547	-
Family Violence Prevention	93.671		-	-	-
Family Preservation	93.556		5,505	-	-
TANF Domestic Violence	93.558		18,282	-	-
TANF Tea Foster Care	93.558		1,743	-	-
TANF Foster Care	93.558		-	-	-
Work First Admin	93.558		79,963	-	105,998
Work First Demonstration Grant	93.558		-	-	-
Work First Service	93.558		486,010	-	593,258
<u>Division of Aging and Adult Services:</u>					
<u>Division of Social Services:</u>					
SSBG - Other Services TRNG	93.667		183,895	21,041	68,312
SSBG - State In Home Service Fund	93.667		12,528	-	1,790
SSBG - State Adult Day Care	93.667		9,526	9,219	2,678

Scotland County
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2012

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
Division of Child Development: Subsidized Child Care (Note 2) Child Care Development Fund Cluster:					
Division of Social Services:					
Child Care Development Fund - Administration	93.596		43,798	-	-
Division of Child Development:					
Child Care and Development Fund - Discretionary	93.575		457,553	-	-
Child Care and Development Fund - Mandatory	93.596		146,219	-	-
Child Care and Development Fund - Match	93.596		402,639	198,886	-
ARRA-Child Care and Development Block Grant	93.713		-	-	-
Total Child Care Development Fund Cluster			1,050,209	198,886	-
Temporary Assistance for Needy Families Foster Care Title IV-E More At Four Funding Smart Start State Appropriations TANF MOE	93.558 93.658		184,264 2,759	-	-
			-	1,511	-
			-	38,430	-
			-	52,509	-
Total Subsidized Child Care (Note 2)			1,237,232	291,336	-
Centers for Medicare and Medicaid Services Passed-through the N.C. Dept. of Health and Human Services:					
Division of Medical Assistance: Direct Benefit Payments:					
Medical Assistance Program	93.778		44,247,987	25,535,547	22,168
Medical Assistance Program	93.778		123,655	47,707	-
Division of Social Services: Administration: Medical Assistance Program State Children's Insurance Program - N.C. Health Choice	93.778 93.767		598,890 12,269	56,477 1,738	526,957 2,229

Scotland County
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2012

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct &) Pass-through Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<u>Centers for Disease Control and Prevention</u>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Public Health:					
Public Health Emergency Preparedness	93.069		34,088	-	-
Tuberculosis Control Programs	93.116		2,500	-	-
Family Planning Services	93.218		-	-	-
Immunization Grants	93.268		15,746	-	-
Prevention Investigations and Technical Assistance	93.283		250	-	-
TANF	93.558		-	-	-
ARRA-Preventing Healthcare-Associated Infections	93.717		2,213	-	-
<u>Health Resources and Services Administration</u>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Public Health:					
Maternal and Child Health Services Block Grant	93.994		78,567	58,932	-
<u>Office of Population Affairs</u>					
Passed-through the N.C. Dept. of Health and Human Services:					
Family Planning Services	93.217		64,254	-	-
Total U.S. Dept. of Health and Human Services			50,242,117	26,180,280	2,001,684
Total Federal Awards			52,403,241	26,188,459	2,379,152

Scotland County
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2012

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
State Awards:					
<u>N.C. Dept. of Cultural Resources</u>					
Division of State Library			-	87,484	-
State Aid to Public Libraries			-	87,484	-
Total N.C. Dept. of Cultural Resources			-	174,968	-
<u>N.C. Dept. of Health and Human Services</u>					
Division of Aging and Adult Services					
Division of Social Services					
State/County Special Assistance for Adults - Domiciliary Care			-	428,865	428,865
<u>Division of Social Services:</u>					
CWS Adopt Subsidy & Vendor			-	169,306	28,084
State Foster Home			-	51,965	51,965
SFFH Maximization			-	60,289	60,289
F/C At Risk Maximization			-	6,944	2,993
DCD Smart Start			-	8,440	-
AFDC Incentive			-	2,345	-
Allocating County Cost			-	-	19,372
State Aid to Counties			-	-	39,162
TANF Incent/Prog Integrity			-	-	-
Energy Assist. Private Grants			-	-	-
Total Division of Social Services			-	733,998	630,730
<u>Division of Public Health:</u>					
Food and Lodging Fees			-	4,486	-
Environmental Health			-	4,000	-
Mosquito-Public Health Pesticide			-	2,220	-
General Aid to Counties			-	104,455	-
General Communicable Disease Control			-	7,855	-
Minority Health Closing Gap			-	4,475	-
WHSF			-	12,766	-
Tuberculosis			-	13,023	-
TB Medical Service			-	1,529	-
General Aid to County			-	7,128	-
Total Division of Public Health			-	161,937	-

Scotland County
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2012

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
Dept. of Juvenile Justice and Delinquency Prevention Juvenile Crime Prevention Programs			-	213,766	-
N.C. Dept. of Transportation Rural Operating Assistance Program (ROAP)					
- ROAP Elderly and Disabled Transportation Assistance Program			-	60,729	-
- ROAP Rural General Public Program			-	55,533	-
- ROAP Work First Transitional - Employment Transportation Assistance Program			-	32,222	-
Total ROAP			-	148,484	-
N.C. Dept. of Corrections Criminal Justice Partnership Program			-	153,190	-
Total State Awards			-	1,498,859	630,730
Total Federal and State Awards			52,403,241	27,687,318	3,009,882

Scotland County
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2012

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 Scotland 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 basic 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 N.C. Dept. of Health and Human Services and are treated separately for state audit requirement purposes: Subsidized Child Care, Foster Care and Adoption.

3. Subrecipients

Of the federal and State expenditures presented in the schedule, Scotland County provided federal and State awards to subrecipients as follows:

Program Title	State Expenditures
Juvenile Family Alternatives (JCPC)	5,200
Seats for Youth (Juvenile Justice)	208,566

