Scotland County Board of Education

Financial Statements

For the Fiscal Year Ended June 30, 2006

SCOTLAND COUNTY BOARD OF EDUCATION
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DIXON HUGHES PLLC

Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

To the Scotland County Board of Education
Scotland County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Scotland County Board of Education, as of and for the year ended June 30, 2006 which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Scotland County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Scotland County Board of Education as of June 30, 2006, and the respective changes in financial position and its cash flows, where applicable, thereof and the respective budgetary comparison for the General, State Public School and the Federal Grants funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2006 on our consideration of the Scotland County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Scotland County Board of Education, North Carolina. The individual fund financial schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Dixon Hughes PLLC

October 24, 2006
Southern Pines, North Carolina

This section of the Scotland County Board of Education's (the "Board") financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2006. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- There were no significant changes in enrollment from previous years during the 2005-06 fiscal year.
- The Board receives funding from the Scotland County Board of Commissioners under Chapter 707 of the 1963 Session Laws, which was amended by the 2002 General Assembly. During the 2005-06 fiscal year the amount of funding for local current expense was based on this funding law as amended, and reflected an increase of $178,287, only 1.9% over the previous year's funding. Future current expense funding will also be based on the amended formula, as determined by the average percentage change in current expense expenditures for low-wealth counties in the state.

Overview of the Financial Statements

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

- *Independent Auditors' Report*
- *Management's Discussion and Analysis (required supplementary information)*
- *Basic Financial Statements*
- *Required supplemental section that presents combining and budgetary statements for nonmajor governmental funds and budgetary statements for enterprise funds.*

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

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

Government-wide Statements

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

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

- Over time, increases or decreases in the Board's net assets are an indicator of whether its financial position is improving or deteriorating.

- To assess the Board's overall health, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of its school buildings and other physical assets.

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

- *Governmental activities*: Most of the Board's basic services are included here, such as regular and special education, transportation, and administration. County funding and state and federal aid finance most of these activities.

- *Business-type activities*: The Board charges fees to help it cover the costs of certain services it provides. School food service is included here.

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

Fund Financial Statements

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

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

Scotland County Board of Education has three types of funds:

Governmental funds: Most of the Board's basic services are included in the governmental funds, which generally focus on two things – 1) how cash and other assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the coming year to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental fund statements, in the form of a reconciliation, explains the relationship (or differences) between the government-wide and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, and the Federal Grants Fund.

The governmental fund statements are shown as Exhibits 3, 4, 5, and 6 of this report.

Proprietary funds: Services for which the Board charges a fee are generally reported in the proprietary funds. The proprietary fund statements are reported on the same full accrual basis of accounting as the government-wide statements. The Scotland County Board of Education's only proprietary fund is an enterprise fund, the School Food Service Fund.

The proprietary fund statements are shown as Exhibits 7, 8, and 9 of this report.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Scotland County Board of Education has one fiduciary fund – the Administrative Fund, which is a scholarship fund under the control of the administrative unit. This is accounted for as a private purpose trust fund.

The fiduciary fund statements are shown as Exhibits 10 and 11 of this report.

Financial Analysis of the Board as a Whole

Net assets are an indicator of the fiscal health of the Board. Assets exceeded liabilities by $40.1 million as of June 30, 2006. The largest component of net assets is invested in capital assets, net of related debt, of $39.8 million, which comprises 99.3% of the Board's total net assets.

Following is a summary of the Statement of Net Assets:

Table 1
Condensed Statement of Net Assets
As of June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/06	6/30/05	6/30/06	6/30/05	6/30/06	6/30/05
Current assets	$ 4,621,033	$ 5,275,830	$ 631,768	$ 728,566	$ 5,252,801	$ 6,004,396
Capital assets	39,508,587	40,687,559	411,828	177,188	39,920,415	40,864,747
Total assets	44,129,620	45,963,389	1,043,596	905,754	45,173,216	46,869,143
Current liabilities	2,120,713	2,018,778	94,536	46,943	2,215,249	2,065,721
Long-term liabilities	2,802,886	2,928,861	85,021	66,747	2,887,907	2,995,608
Total liabilities	4,923,599	4,947,639	179,557	113,690	5,103,156	5,061,329
Invested in capital assets, net of related debt	39,367,778	40,262,233	411,828	177,188	39,779,606	40,439,421
Restricted net assets	239,656	189,507	-	-	239,656	189,507
Unrestricted net Assets (deficit)	(401,413)	564,010	452,211	614,876	50,798	1,178,886
Total net assets	$ 39,206,021	$ 41,015,750	$ 864,039	$ 792,064	$ 40,070,060	$ 41,807,814

The net assets of the Board's governmental activities decreased from $41.0 million at June 30, 2005 to $39.2 million at June 30, 2006. This decrease of $1.8 million resulted primarily from a $1.2 million excess of depreciation expense recorded on our capital assets over capital additions. In addition, increased instructional and supporting services costs, primarily in the General Fund, also contributed to the $1.7 million decrease in net assets.

The net assets of our business-type activities increased $72,000 from $792,000 at June 30, 2005 to $864,000 at June 30, 2006. This increase of $72,000 is the amount of net income generated by our school food service operations during the 2006 fiscal year.

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

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/06	6/30/05	6/30/06	6/30/05	6/30/06	6/30/05
Revenues:						
Program revenues:						
Charges for services	$ 1,359,769	$ 1,264,975	$ 864,365	$ 910,368	$ 2,224,134	$ 2,175,343
Operating grants and contributions	44,384,910	43,729,235	2,627,725	2,556,333	47,012,635	46,285,568
Capital grants and contributions	682,901	660,026	-	-	682,901	660,026
General revenues:						
Other revenues	12,148,440	10,267,365	6,215	1,512	12,154,655	10,268,877
Total revenues	58,576,020	55,921,601	3,498,305	3,468,213	62,074,325	59,389,814
Expenses:						
Governmental activities:						
Instructional programs	43,921,210	40,826,105	-	-	43,921,210	40,826,105
Supporting services	15,145,518	14,211,772	-	-	15,145,518	14,211,772
Community services	80,495	100,546	-	-	80,495	100,546
Nonprogrammed charges	34,080	137,099	-	-	34,080	137,099
Depreciation	1,204,446	1,253,260	-	-	1,204,446	1,253,260
Business-type activities:						
School food service	-	-	3,426,330	3,367,289	3,426,330	3,367,289
Total expenses	60,385,749	56,528,782	3,426,330	3,367,289	63,812,079	59,896,071
Increase (decrease) in net assets	(1,809,729)	(607,181)	71,975	100,924	(1,737,754)	(506,257)
Beginning net assets	41,015,750	41,622,931	792,064	691,140	41,807,814	42,314,071
Ending net assets	$ 39,206,021	$ 41,015,750	$ 864,039	$ 792,064	$ 40,070,060	$ 41,807,814

During the year ended June 30, 2006, our governmental activities generated revenues of $58.6 million compared with total expenses of $60.4 million, resulting in the aforementioned decrease in our net assets for these activities of $1.8 million. Our primary sources of revenue were funding from the State of North Carolina, the County of Scotland, and the United States government, which respectively comprised 65%, 16%, and 14% of our revenues. As would be expected, the major component of our expenditures was instructional programs, which accounted for 73% of our total expenditures during the most recent fiscal year. Of the remaining 27% of our total expenditures, 25% was attributable to supporting services.

The decrease in the net assets of our governmental activities during the fiscal year ended June 30, 2006 of $1.8 million represented a decline in comparison to the $607,000 decrease experienced during the fiscal year ended June 30, 2005. This decline resulted from the increase in our expenditures which exceeded the corresponding increase in our revenues. Our governmental activity revenues increased $2.7 million during the current year in comparison to the fiscal year ended June 30, 2005. This increase is primarily attributable to an increase of $2.5 million in state grant revenues. Expenditures for the fiscal year ended June 30, 2006 increased $3.9 million as compared with the prior year. This increase was primarily attributable to increases in instructional programs and supporting services which increased $3.1 million and $934,000, respectively.

Our business-type activities generated revenue of $3.5 million and had expenses of $3.4 million, resulting in the aforementioned increase in net assets of $72,000. This represents a decline of $29,000 over the $101,000 increase in net assets for the fiscal year ended June 30, 2005. This decline is primarily due to a decrease of $46,000 in food sales over the two periods.

Financial Analysis of the Board's Funds

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

The Board's governmental funds reported a combined fund balance of $2.5 million at June 30, 2006, a $757,000 decrease from the prior year. For the fiscal year ended June 30, 2006, expenditures exceeded revenues in both the General and Capital Outlay funds, while revenues exceeded expenditures in the Individual Schools fund. The State Public School Fund and the Federal Grants Fund always report revenues equal to expenditures. Total revenues increased $2.7 million due primarily to an increase in state grant revenues. Expenditures increased $2.8 million due to increased instructional programs and supporting services costs.

Proprietary Funds: The Board's business-type fund, the School Food Service Fund, generated net income of $72,000 during the year ended June 30, 2006, which was a decline of $29,000 over the net income of $101,000 earned during the prior year.

General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for increases in revenue and expenditure expectations. For the year, the Board finished with expenditures in excess of revenues, net of changes in reserve for inventories, of $714,000.

Capital Assets

Capital assets decreased by $1.2 million, or 2.9% compared to the previous year. The decrease was primarily due to current year depreciation expense. The following is a summary of the capital assets, net of depreciation, at year-end.

Table 3
Summary of Capital Assets
As of June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/06	6/30/05	6/30/06	6/30/05	6/30/06	6/30/05
Land	$ 467,029	$ 467,029	$ -	$ -	$ 467,029	$ 467,029
Construction in progress	14,989	95,695	-	-	14,989	95,695
Buildings and improvements	37,735,559	38,671,700	-	-	37,735,559	38,671,700
Equipment and furniture	442,676	368,086	411,828	177,188	854,504	545,274
Vehicles	848,334	1,085,049	-	-	848,334	1,085,049
Total	$39,508,587	$40,687,559	$ 411,828	$ 177,188	$39,920,415	$40,864,747

Debt Outstanding

During the year, the Board's issued no new debt and outstanding debt decreased by $285,000. The Board's outstanding debt is for installment financing to pay for replacement school buses. The Board is limited by North Carolina General Statutes with regards to the types of debt it can issue and for what purpose that debt can be used. The County holds all debt issued for school capital construction.

Economic Factors

Enrollment figures are expected to remain unchanged over the next several years. The 2005-06 State Budget passed by the General Assembly included a $44 million discretionary reduction to come from state funds allotted to local education agencies. For fiscal year 2005-06, Scotland County Schools' portion of the discretionary reduction was $216,000.

The following factors affect the economic outlook of Scotland County.

- Due to the loss of several of its industries, Scotland County's unemployment rate is higher than the state average.
- The Economic Development Work Program committee has been formed and works to promote commercial and industrial development and growth of the Scotland County area.

Requests for Information

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

Sharon Hales, Finance Officer
Scotland County Board of Education
322 South Main Street
Laurinburg, NC 28352

SCOTLAND COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
June 30, 2006

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 2,460,458	$ 630,903	$ 3,091,361
Due from other governments	1,873,313	77,774	1,951,087
Receivables (net)	22,073	3,862	25,935
Internal balances	172,247	(172,247)	-
Inventories	92,942	91,476	184,418
Capital assets:			
Land, improvements, and construction in progress	482,018	-	482,018
Other capital assets, net of depreciation	39,026,569	411,828	39,438,397
Total capital assets	39,508,587	411,828	39,920,415
Total assets	44,129,620	1,043,596	45,173,216
Liabilities			
Accounts payable and accrued liabilities	154,120	13,343	167,463
Accrued salaries and wages payable	1,956,698	72,023	2,028,721
Unearned revenue	9,895	9,170	19,065
Long-term liabilities:			
Due within one year	1,648,220	54,294	1,702,514
Due in more than one year	1,154,666	30,727	1,185,393
Total liabilities	4,923,599	179,557	5,103,156
Net assets			
Invested in capital assets, net of related debt	39,367,778	411,828	39,779,606
Restricted for:			
Individual schools activities	239,656	-	239,656
Unrestricted (deficit)	(401,413)	452,211	50,798
Total net assets	$ 39,206,021	$ 864,039	$ 40,070,060

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

SCOTLAND COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

Exhibit 2

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Instructional programs:							
Regular	$ 27,335,378	$ -	$ 24,356,468	$ -	$ (2,978,910)	$ -	$ (2,978,910)
Special	10,269,985	-	8,748,523	-	(1,521,462)	-	(1,521,462)
Co-curricular	1,977,432	-	-	-	(1,977,432)	-	(1,977,432)
Remediation	226	-	41	-	(185)	-	(185)
Student services	3,760,923	1,346,240	3,241,115	-	826,432	-	826,432
Other	577,266	-	459,267	-	(117,999)	-	(117,999)
Support services:							
Instructional staff	1,396,108	-	852,411	-	(543,697)	-	(543,697)
Administrative	976,446	-	513,308	-	(463,138)	-	(463,138)
School administration	3,779,763	-	2,670,330	-	(1,109,433)	-	(1,109,433)
Business support	8,093,673	13,529	2,948,389	682,901	(4,448,854)	-	(4,448,854)
Central support	806,419	-	375,701	-	(430,718)	-	(430,718)
Other	88,401	-	52,848	-	(35,553)	-	(35,553)
Community services	80,495	-	-	-	(80,495)	-	(80,495)
Non-programmed charges	34,080	-	166,509	-	132,429	-	132,429
Unallocated depreciation expense**	1,204,446	-	-	-	(1,204,446)	-	(1,204,446)
Total governmental activities	60,385,749	1,359,769	44,384,910	682,901	(13,958,169)	-	(13,958,169)
Business-type activities:							
School food service	3,426,330	864,365	2,627,725	-	-	65,760	65,760
Total primary government	$ 63,812,079	$ 2,224,134	$ 47,012,635	$ 682,901	(13,958,169)	65,760	(13,892,409)
General revenues:							
Unrestricted county appropriations - operating					9,386,584	-	9,386,584
Unrestricted State appropriations - operating					2,266,967	-	2,266,967
Investment earnings, unrestricted					78,165	6,215	84,380
Miscellaneous, unrestricted					416,724	-	416,724
Total general revenues					12,148,440	6,215	12,154,655
Change in net assets					(1,809,729)	71,975	(1,737,754)
Net assets - beginning					41,015,750	792,064	41,807,814
Net assets - ending					$ 39,206,021	$ 864,039	$ 40,070,060

** This amount excludes the depreciation that is included in the direct expenses of the various programs.

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

SCOTLAND COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	Major Funds				Non-major Fund	
	General	State Public School	Federal Grants Fund	Capital Outlay	Individual Schools	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 1,608,124	$ -	$ 9,895	$ 602,783	$ 239,656	$ 2,460,458
Accounts receivable	1,227	-	-	20,846	-	22,073
Due from other governments	126,068	1,606,534	140,711	-	-	1,873,313
Due from other funds	172,247	-	-	64,485	-	236,732
Inventories	92,942	-	-	-	-	92,942
Total assets	$ 2,000,608	$ 1,606,534	$ 150,606	$ 688,114	$ 239,656	$ 4,685,518
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued liabilities	$ 154,120	$ -	$ -	$ -	$ -	$ 154,120
Accrued salaries and wages payable	209,453	1,606,534	140,711	-	-	1,956,698
Due to other funds	64,485	-	-	-	-	64,485
Unearned revenue	-	-	9,895	-	-	9,895
Total liabilities	428,058	1,606,534	150,606	-	-	2,185,198
Fund balances:						
Reserved for:						
Inventories	92,942	-	-	-	-	92,942
State statute	299,542	-	-	85,331	-	384,873
Unreserved:						
Designated for subsequent year's expenditures	836,546	-	-	548,437	-	1,384,983
Undesignated, reported in:						
General Fund	343,520	-	-	-	-	343,520
Special Revenue Funds	-	-	-	-	239,656	239,656
Capital Projects Fund	-	-	-	54,346	-	54,346
Total fund balances	1,572,550	-	-	688,114	239,656	2,500,320
Total liabilities and fund balances	$ 2,000,608	$ 1,606,534	$ 150,606	$ 688,114	$ 239,656	

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.	39,508,587
Some liabilities, such as installment purchases and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(2,802,886)
Net assets of governmental activities	$ 39,206,021

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

SCOTLAND COUNTY BOARD OF EDUCATION **Exhibit 4**
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2006

	Major Funds				Non-major Fund	
	General	State Public School	Federal Grants Fund	Capital Outlay	Individual Schools	Total Governmental Funds
Revenues:						
State of North Carolina	$ 1,029,327	$ 37,178,027	$ -	$ 284,517	$ -	$ 38,491,871
Scotland County	9,386,584	-	-	-	-	9,386,584
U.S. Government	2,074,398	-	6,370,684	-	-	8,445,082
Other	1,103,659	-	-	254,408	1,346,240	2,704,307
Total revenues	13,593,968	37,178,027	6,370,684	538,925	1,346,240	59,027,844
Expenditures:						
Current:						
Instructional programs:						
Regular	3,777,321	17,622,201	927,860	-	-	22,327,382
Special	1,251,466	4,703,416	2,433,584	-	-	8,388,466
Co-curricular	319,064	-	-	-	1,296,091	1,615,155
Remediation	-	184	-	-	-	184
Student services	283,611	1,931,829	856,460	-	-	3,071,900
Other	1,119,351	6,248,743	1,033,182	-	-	8,401,276
Support services:						
Pupil	3,977	-	-	-	-	3,977
Instructional staff	474,905	313,032	391,463	-	-	1,179,400
Administrative	400,976	154,608	269,296	-	-	824,880
School administration	974,016	2,214,717	4,325	-	-	3,193,058
Business support	4,302,328	2,329,650	119,325	-	-	6,751,303
Central support	246,918	433,817	510	-	-	681,245
Other	974,103	1,225,830	168,170	-	-	2,368,103
Community services	80,495	-	-	-	-	80,495
Non-programmed charges	89,424	-	166,509	-	-	255,933
Debt service:						
Principal	-	-	-	284,517	-	284,517
Capital outlay:						
Land, buildings, and site improvement	-	-	-	202,878	-	202,878
Furnishings and equipment	-	-	-	75,934	-	75,934
Vehicles and other	-	-	-	68,607	-	68,607
Total expenditures	14,297,955	37,178,027	6,370,684	631,936	1,296,091	59,774,693
Net change in fund balance	(703,987)	-	-	(93,011)	50,149	(746,849)
Fund balances:						
Beginning of year	2,286,420	-	-	781,125	189,507	3,257,052
Increase (decrease) in reserve for inventories	(9,883)	-	-	-	-	(9,883)
End of year	$ 1,572,550	$ -	$ -	$ 688,114	$ 239,656	$ 2,500,320

14,297,955 - local
6,370,684 - federal
20,668,639
11,175,676 - federal per PPE report
9,492,963

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2006

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

Net changes in fund balances - total governmental funds	$ (746,849)
Change in fund balance due to change in reserve for inventory	(9,883)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(1,178,972)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	284,517
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated absences	(158,542)
Total changes in net assets of governmental activities	$ (1,809,729)

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

SCOTLAND COUNTY BOARD OF EDUCATION
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2006

Exhibit 6

	General Fund				State Public School Fund				Federal Grants Fund			
	Original Budget	Final Budget	Actual	Variance with final budget positive (negative)	Original Budget	Final Budget	Actual	Variance with final budget positive (negative)	Original Budget	Final Budget	Actual	Variance with final budget positive (negative)
Revenues:												
State of North Carolina	$ 544,579	$ 1,087,734	$ 1,029,327	$ (58,407)	$ 35,827,774	$ 38,596,040	$37,178,027	$ (1,418,013)	$ -	$ -	$ -	$ -
Scotland County	9,386,584	9,386,584	9,386,584	-	-	-	-	-	-	-	-	-
U.S. Government	2,745,346	2,770,874	2,074,398	(696,476)	-	-	-	-	5,706,108	8,878,662	6,370,684	(2,507,978)
Other	704,953	942,355	1,103,659	161,304	-	-	-	-	-	-	-	-
Total revenues	13,381,462	14,187,547	13,593,968	(593,579)	35,827,774	38,596,040	37,178,027	(1,418,013)	5,706,108	8,878,662	6,370,684	(2,507,978)
Expenditures:												
Current:												
Instructional programs:												
Regular	3,498,442	3,890,010	3,777,321	112,689	17,362,155	17,848,497	17,622,201	226,296	989,793	1,140,573	927,860	212,713
Special	1,161,247	1,285,271	1,251,466	33,805	4,532,650	4,965,189	4,703,416	261,773	2,017,697	2,532,337	2,433,584	98,753
Co-Curricular	319,092	323,669	319,064	4,605	-	-	-	-	-	-	-	-
Remediation	-	-	-	-	-	184	184	-	-	-	-	-
Student services	298,828	334,498	283,611	50,887	1,524,324	2,128,179	1,931,829	196,350	707,147	1,004,723	856,460	148,263
Other	1,072,561	1,142,417	1,119,351	23,066	6,421,405	6,692,334	6,248,743	443,591	998,522	1,243,319	1,033,182	210,137
Supporting services:												
Pupil support	-	4,000	3,977	23	-	-	-	-	-	-	-	-
Instructional staff	710,452	832,316	474,905	357,411	295,502	313,504	313,032	472	340,431	438,130	391,463	46,667
Administrative	396,216	402,816	400,976	1,840	154,606	154,608	154,608	-	264,698	270,592	269,296	1,296
School administration	1,009,951	978,222	974,016	4,206	1,979,473	2,244,535	2,214,717	29,818	3,500	4,327	4,325	2
Business support	4,132,659	4,338,769	4,302,328	36,441	1,811,677	2,357,095	2,329,650	27,445	63,987	129,011	119,325	9,686
Central support	265,031	271,135	246,918	24,217	437,898	458,170	433,817	24,353	-	600	510	90
Other	925,339	991,309	974,103	17,206	1,308,084	1,433,745	1,225,830	207,915	175,678	208,312	168,170	40,142
Community services:												
Regular	68,396	68,924	68,364	560	-	-	-	-	-	-	-	-
Other	10,600	12,197	12,131	66	-	-	-	-	-	-	-	-
Nonprogrammed charges:												
Payments to other governments	149,818	144,000	89,424	54,576	-	-	-	-	142,086	176,489	166,509	9,980
Unbudged Federal grant funds	169,376	126,690	-	126,690	-	-	-	-	2,569	1,730,249	-	1,730,249
Contingency	30,000	30,000	-	30,000	-	-	-	-	-	-	-	-
Total expenditures	14,218,008	15,176,243	14,297,955	878,288	35,827,774	38,596,040	37,178,027	1,418,013	5,706,108	8,878,662	6,370,684	2,507,978
Revenues over (under) expenditures	(836,546)	(988,696)	(703,987)	284,709	-	-	-	-	-	-	-	-
Fund balance appropriated	836,546	988,696	-	(988,696)	-	-	-	-	-	-	-	-
Net change in fund balance	$ -	$ -	(703,987)	$ (703,987)	$ -	$ -	-	$ -	$ -	$ -	-	$ -
Fund balances:												
Beginning of year			2,286,420				-				-	
Increase (decrease) in reserve for inventories			(9,883)				-				-	
End of year			$ 1,572,550				$ -				$ -	

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

SCOTLAND COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2006

Exhibit 7

	Enterprise Major Fund School Food Service
Assets	
Current assets:	
Cash and cash equivalents	$ 630,903
Due from other governments	77,774
Accounts receivable	3,862
Inventories	91,476
Total current assets	804,015
Noncurrent assets:	
Capital assets:	
Equipment, furniture and vehicles, net	411,828
Total assets	1,215,843
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	13,343
Accrued salaries and wages payable	72,023
Compensated absences	54,294
Due to other funds	172,247
Unearned revenue	9,170
Total current liabilities	321,077
Noncurrent liabilities:	
Compensated absences	30,727
Total liabilities	351,804
Net assets	
Invested in capital assets, net of related debt	411,828
Unrestricted	452,211
Total net assets	$ 864,039

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

SCOTLAND COUNTY BOARD OF EDUCATION **Exhibit 8**
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2006

	Enterprise Major Fund School Food Service
Operating revenues:	
Food sales	$ 864,365
Operating expenses:	
Food cost:	
Purchase of food	1,018,570
Donated commodities	185,663
Salaries and benefits	1,741,151
Indirect costs	229,971
Materials and supplies	125,618
Repairs and maintenance	24,746
Depreciation	50,280
Other	50,331
Total operating expenses	3,426,330
Operating income (loss)	(2,561,965)
Nonoperating revenues:	
Federal reimbursements	2,420,827
Fruit and Vegetable program	5,619
Federal commodities	185,663
State Kindergarten Breakfast Program	7,616
Other grant programs	8,000
Interest earned	6,215
Total nonoperating revenues	2,633,940
Change in net assets	71,975
Net assets, beginning of year	792,064
Net assets, end of year	$ 864,039

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

SCOTLAND COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2006

Exhibit 9

	Enterprise Major Fund School Food Service
Cash flows from operating activities:	
Cash received from customers	$ 864,365
Cash paid for goods and services	(1,364,469)
Cash paid to employees for services	(1,687,241)
Net cash provided (used) by operating activities	(2,187,345)
Cash flows from noncapital financing activities:	
Federal grants and reimbursements	2,393,225
State Kindergarten Breakfast Program	7,616
Other grant programs	8,000
Borrowings from General Fund	30,000
Net cash provided (used) by noncapital financing activities	2,438,841
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(284,920)
Cash flows from investing activities:	
Interest earned on investments	6,215
Net increase (decrease) in cash and cash equivalents	(27,209)
Cash and cash equivalents, beginning of year	658,112
Cash and cash equivalents, end of year	$ 630,903
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	$ (2,561,965)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	50,280
Donated commodities	185,663
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	3,276
(Increase) decrease in inventories	(20,046)
Increase (decrease) in accounts payable and accrued liabilities	8,473
Increase (decrease) in accrued salaries and wages payable	35,636
Increase (decrease) in due to other funds	89,580
Increase (decrease) in deferred revenue	3,484
Increase (decrease) in compensated absences payable	18,274
Total adjustments	374,620
Net cash provided (used) by operating activities	$ (2,187,345)

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:
The School Food Service Fund received donated commodities with a value of $185,663 during the fiscal year. The receipt of these commodities is reflected as a nonoperating revenue on exhibit 8.

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

SCOTLAND COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2006

Exhibit 10

	Fiduciary Fund
Assets	
Cash and cash equivalents	$ 202,877
Liabilities	-
Net assets	
Assets held in trust for private purpose	$ 202,877

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

SCOTLAND COUNTY BOARD OF EDUCATION — **Exhibit 11**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUND

For the Fiscal Year Ended June 30, 2006

	Fiduciary Fund
Additions:	
Contributions and other revenue	$ 9,120
Deductions:	
Instructional costs	5,313
Change in net assets	3,807
Beginning net assets	199,070
Ending net assets	$ 202,877

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

Fund Financial Statements: The fund financial statements provide information about the Board's funds. 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. The fiduciary funds are presented separately.

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

The Board reports the following major governmental funds:

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

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

Federal Grants Fund. The Federal Grants Fund includes appropriations from the U.S. Government for the current operating expenditures of the public school system.

Capital Outlay Fund. The Capital Outlay Fund accounts for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds and trust funds). It is mandated by State law [G.S.115C-426]. Capital projects are funded by Scotland County appropriations, restricted sales tax moneys, proceeds of Scotland County bonds issued for public school construction, as well as certain State assistance.

The Board reports the following major enterprise fund:

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

The Board reports the following fiduciary fund:

Administrative Fund. The Administrative Fund is used to account for scholarship money under the control of the Board for the benefit of students in the County.

C. <u>Measurement Focus and Basis of Accounting</u>

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 and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue funds, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. The Board has authorized the Superintendent to transfer amounts between purposes and between functions within a purpose. A summary of all such transfers must be reported to the Board quarterly. The Superintendent may not transfer any amounts between funds nor from any contingency appropriation within a fund. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The net effects are as follows:

Fund	Net Increase (Decrease) in Original Budget
General Fund	$ 958,235
State Public School Fund	2,768,266
Federal Grants Fund	3,173,554
Capital Projects Fund	161,866
School Food Service Fund	244,254

The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

State law [G.S. 115C-443] authorizes the Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund; and the North Carolina State Treasurer's Short Term Investment Fund (STIF). The STIF consists of an internal portion and an external portion in which the board participates. Investments are restricted to those enumerated in G.S. 147-69.1.

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

2. Cash and Cash Equivalents

The Board pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Inventories

The inventories of the Board are valued at cost and the Board uses the first-in, first-out (FIFO) flow assumption in determining cost. The inventories of the Board's General Fund consist of expendable materials and supplies which are recorded as expenditures when purchased. The General Fund inventories do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved.

Proprietary Fund inventories consist of food and supplies and are recorded as expenses when consumed.

4. Capital Assets

The Board's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation or forfeiture. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1, 1990 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

For capital assets utilized in governmental activities, it is the policy of the Board to capitalize those assets costing more than $5,000 with an estimated useful life of two or more years, while for capital assets utilized in business-type activities, the Board's policy is to capitalize those assets costing more than $500 with an estimated useful life of two or more years. The cost of normal repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

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

	Years
Buildings and improvements	15 - 50
Equipment and furniture	3 - 10
Vehicles	6

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

5. Long-term obligations

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

6. Compensated Absences

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2006 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records of the current portion of compensated absences.

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

7. Net Assets/Fund Balances

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

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

State law [G.S. 115C-425(a)] restricts the appropriation of fund balance or fund equity to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for inventories - portion of fund balance not available for appropriation because it represents the year-end fund balance of ending inventories which are not expendable, available resources.

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law. This amount is usually comprised of accounts receivable and interfund receivables which are not offset by deferred revenues.

Unreserved:

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

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

8. Reconciliation of Government-wide and Fund Financial Statements

a. 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 $36,705,701 consists of several elements as follows:

Description	Amount
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	$ 59,768,047
Less accumulated depreciation	(20,259,460)
Net capital assets	39,508,587
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Installment purchase	(140,809)
Compensated absences	(2,662,077)
Total adjustment	$ 36,705,701

b. 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 ($1,062,880) as follows:

Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	$ 267,614
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	(1,446,586)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affect only the statement of net assets in the government-wide statements	284,517

Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(158,542)
Adjustment due to the use of the consumption method of recording inventory in the government-wide statements	(9,883)
Total adjustment	$ (1,062,880)

NOTE 2 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

At June 30, 2006, the Board had deposits with banks and savings and loans with a carrying amount of $1,206,956 and with the State Treasurer of $9,895. The bank balances with the financial institutions and the State Treasurer were $1,425,651, and $878,147, respectively. Of these balances, $300,000 was covered by federal depository insurance and $2,003,798 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Investments

At June 30 2006, the Board of Education had $2,077,387 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.18 years at June 30, 2006. The Board has no policy for managing interest rate risk or credit risk.

3. Accounts Receivable

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

	Due from other funds (Internal Balances)	Due from other governments	Other	Total
Governmental activities:				
General Fund	$ 172,247	$ 126,068	$ 1,227	$ 299,542
Other governmental activities	-	1,747,245	20,846	1,768,091
Total	$ 172,247	$ 1,873,313	$ 22,073	$ 2,067,633
Business-type activities:				
School Food Service	$ (172,247)	$ 77,774	$ 3,862	$ (90,611)

Due from other governments consists of the following:

Governmental activities:		
General Fund	$ 126,068	State and Federal grant funds
State Public School Fund	1,606,534	Operating funds from DPI
Federal Grants Fund	140,711	Federal grant funds
	$ 1,873,313	
Business-type activities:		
School food Service	$ 77,774	USDA reimbursement

4. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 467,029	$ -	$ -	$ 467,029
Construction in progress	95,695	18,184	98,890	14,989
Total capital assets not being depreciated	562,724	18,184	98,890	482,018
Capital assets being depreciated:				
Buildings and improvements	52,416,060	120,785	-	52,536,845
Equipment and furniture	1,202,057	138,172	-	1,340,229
Vehicles	5,389,663	89,363	70,071	5,408,955
Total capital assets being depreciated	59,007,780	348,320	70,071	59,286,029
Less accumulated depreciation for:				
Buildings and improvements	13,744,360	1,056,926	-	14,801,286
Equipment and furniture	833,971	63,582	-	897,553
Vehicles	4,304,614	326,078	70,071	4,560,621
Total accumulated depreciation	18,882,945	1,446,586	70,071	20,259,460
Total capital assets being depreciated, net	40,124,835			39,026,569
Governmental activity capital assets, net	$ 40,687,559			$ 39,508,587
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment, furniture and vehicles	$ 831,446	$ 284,920	$ 28,321	$ 1,088,045
Less accumulated depreciation for:				
Equipment, furniture and vehicles	654,258	50,280	28,321	676,217
School Food Service capital assets, net	$ 177,188			$ 411,828

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	$ 1,204,446
Business support services	242,140
Total	$ 1,446,586

Construction and Other Significant Commitments

The Board has active construction projects as of June 30, 2006. These projects include various repairs and renovations throughout the district. At year-end, the Board's commitments with contractors for repairs and renovations are as follows:

Project	Spent-to-date	Remaining Commitment
Repairs and renovations	$ -	$ 1,111,573

MST 430,450
football field 168,123
Roof 513,000

B. Liabilities

1. Pension Plan Obligations

a. Teachers' and State Employees' Retirement System

Plan Description. Scotland County Board of Education contributes to the statewide Teachers' and State Employees' Retirement System (TSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS provides retirement benefits to plan members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of 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 and the Board is required to contribute at an actuarially determined rate. The current rate is 6.82% of annual covered payroll. The contribution requirements of plan members and Scotland County Board of Education are established and may be amended by the North Carolina General Assembly. The Board's contributions to TSERS for the years ended June 30, 2006, 2005, and 2004 were $2,532,930, $2,052,565, and $1,205,549, respectively, equal to the required contributions for each year.

b. Post-employment Benefits

In addition to providing pension benefits, the Board provides disability benefits and post-employment health care benefits and death benefits, in accordance with State statutes, to certain employees. These benefits are provided through multiple-employer cost-sharing plans administered by the State. The Board makes monthly contributions to the State for these benefits. Health care benefits are provided to retirees (at no charge to the retirees) of the Teachers' and State Employees' Retirement System (System) who have at least five years of contributing membership in the System. These benefits are provided through the State's Comprehensive Major Medical Plan. Once retirees become eligible for Medicare coverage, they must elect to participate in Part A and Part B coverage to maintain the level of coverage provided prior to retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

c. Other Employee Benefits

Death benefits are provided through the Benefit Plan for members of the Teachers' and State Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. Employees who die in active service after one year of contributing membership service 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 highest 12 months salary in a row during the 24 months prior to his/her death with a minimum benefit of $25,000 and a maximum of $50,000.

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (Disability Income Plan), a multiple-employer State-administered cost-sharing plan, which also is funded on a one-year term cost basis. Long-term disability benefits are payable from the Disability Income Plan after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits if the following requirements are met: 1) the employee has five years of contributing membership service in the System earned within 96 months prior to the end of the short-term disability period; 2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later; and 3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her occupation; 4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; 5) the employee must terminate employment with the State; and 6) the employee must not be eligible to receive an unreduced retirement benefit from the System. In addition, recipients of the long-term disability benefits are eligible to receive State-paid health insurance coverage. The monthly long-term disability benefit is equal to 65 percent of one-twelfth of an employee's annual base rate of compensation reduced by any social security or workers' compensation to which the recipient may be entitled up to a maximum of $3,900 per month, plus additional minor adjustments. When an employee qualifies for an unreduced service retirement allowance from the System, the benefits payable from the Disability Income Plan will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System. Effective August 1, 2005, employees that have not yet vested in the long-term disability plan (i.e. employees that do not have 5 years of membership service as of August 1, 2005) will have to comply with revised standards to determine long-term disability.

All short-term disability benefit payments are made by various State-administered plans. The Board has no liability beyond payment of monthly contributions except for short-term disability benefits, which are paid by the Board during the first six months of the short-term period. Contributions are determined as a percentage of covered monthly payroll. Annually, the State sets monthly contribution rates for post-employment health care benefits, death benefits, and disability benefits, which are the same for all boards of education across the State. For the fiscal year ended June 30, 2006, the Board made contributions to the State for post-employment health care benefits of $1,411,310, death benefits of $59,424 and disability benefits of $193,127; these contributions represented 3.80%, 0.16% and 0.52% of covered payroll, respectively. The contributions for post-employment health care benefits and disability benefits cannot be separated between the postemployment benefit amounts and the other employee benefit amounts. Because the benefit payments are made by the various State-administered plans and not by the Board, the Board does not determine the number of eligible participants.

2. Accounts Payable

Accounts payable as of June 30, 2006 are as follows:

	Vendors	Salaries and Benefits	Total
Governmental activities:			
General	$ 154,120	$ 209,453	$ 363,573
Other governmental	-	1,747,245	1,747,245
Total governmental activities	$ 154,120	$ 1,956,698	$ 2,110,818
Business-type activities:			
School Food Service	$ 13,343	$ 72,023	$ 85,366

3. Unearned Revenues

The balance in unearned revenues at year-end is composed of the following elements:

Unearned Federal grants (Special Revenue Funds)	$	9,895
Prepayments of meals (School Food Service Fund)		9,170
Total	$	19,065

4. Risk Management

The Board 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 Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of $1 million per claim, workers' compensation coverage is provided by Key Risk Insurance Company up to $100,000 per accident. The State of North Carolina provides workers' compensation for employees to the extent they are paid from State funds. The Trust has an annual aggregate limit for general liability and errors and omissions of $2,000,000. The Trust is reinsured through commercial companies for losses in excess of $100,000 per claim for errors and omissions and general liability coverage. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing fund administered by the North Carolina Department of Public Instruction, insuring the tangible property assets of the Board. The Fund provides coverage up to $10 million per occurrence and $20 million in aggregate annually. Excess reinsurance is purchased through commercial insurers, who participate in property losses in excess of the Fund's self-insured retention of $10 million. A total limit of $100 million per occurrence is purchased for covered catastrophic events, $400 million maximum per occurrence for any one flood or earthquake.

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

In Accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for $250,000. The remaining employees that have access to funds are bonded under a blanket bond for $175,000.

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

5. Contingent Liabilities

At June 30, 2006, the Board was a defendant to various lawsuits. The Board's management and the Board's attorney have been unable to determine whether these legal matters will have a material adverse effect on the Board's financial position.

6. Long-Term Obligations

a. Installment Purchases

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot monies for the payments on financing contracts entered into pursuant to G.S. 115C-528. The State has accepted the bid to purchase Thomas Built Buses through a special third party financing arrangement by DaimlerChrysler Services. During 2005, the Board entered into a financing contract for the purchase of school buses. The financing contract requires three equal principal-only payments of $140,809 due at the beginning of each contract year.

The future minimum payments of the installment purchase as of June 30, 2006 is as follows:

Year Ending June 30:	Governmental Activities Principal
2007	$140,809

b. Long-Term Obligation Activity

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

	July 1, 2005	Increases	Decreases	June 30, 2006	Current Portion
Governmental activities:					
Installment purchases	$ 425,326	$ -	$ 284,517	$ 140,809	$ 140,809
Compensated absences	2,503,535	2,198,685	2,040,143	2,662,077	1,507,411
Total	$2,928,861	$2,198,685	$2,324,660	$2,802,886	$ 1,648,220
Business-type activities:					
Compensated absences	$ 66,747	$ 89,463	$ 71,189	$ 85,021	$ 54,294

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

c. Interfund Balances and Activity

The composition of interfund balances as of June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
Capital Outlay Fund	General Fund	$ 64,485
General Fund	School Food Service Fund	172,247
	Total	$ 236,732

The above amounts represent $64,485 of cumulative transportation revenues received by the General Fund and owed to the Capital Outlay Fund, $142,247 of indirect costs owed by the School Food Service Fund to the General Fund, and $30,000 of borrowings owed by the School Food Service Fund to the General Fund at June 30, 2006.

NOTE 3 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

Amounts Owed to Charter Schools for Prior Years' Supplemental Tax and Fines and Forfeitures Revenues

Due to a recent State Supreme Court ruling, Scotland County Board of Education may be required to make retroactive payments to various charter schools in its vicinity. These payments represent a portion of the fines and forfeitures and supplemental school tax revenue that the Board has received over the past three years. If requested to do so, the Board must make these payments to the charter schools during the upcoming fiscal year. The amount of these payments has not yet been determined but is not expected to have an adverse effect on the financial condition of the Board.

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
Textbooks	$ 389,998	$ 398,384	$ 8,386
More at Four	366,270	370,480	4,210
School Nurse Initiative	100,000	80,728	(19,272)
Ala Carte Grant	78,309	78,309	-
Other	153,157	101,426	(51,731)
Total State of North Carolina	1,087,734	1,029,327	(58,407)
Scotland County appropriation	9,386,584	9,386,584	-
U.S. Government:			
Workforce Investment Act	481,643	424,812	(56,831)
Indian Education Act	143,727	143,727	-
Twenty-first Century Community Learning Centers	1,072,293	1,072,209	(84)
Safe Schools / Healthy Students	748,566	223,686	(524,880)
Smaller Learning Communities	274,645	150,142	(124,503)
ROTC	45,000	53,952	8,952
Impact Aid	5,000	5,870	870
Total U.S. Government	2,770,874	2,074,398	(696,476)
Other:			
Tuition and fees	3,000	4,050	1,050
Contributions and donations	215,600	215,825	225
Reimbursements	144,892	182,000	37,108
Fines and forfeitures	175,000	168,039	(6,961)
Interest earned on investment	50,000	56,008	6,008
Rental of school property	10,000	9,479	(521)
Indirect costs allocated	300,000	451,824	151,824
Miscellaneous	43,863	16,434	(27,429)
Total other	942,355	1,103,659	161,304
Total revenues	14,187,547	13,593,968	(593,579)
Expenditures:			
Current:			
Instructional programs:			
Regular	3,890,010	3,777,321	112,689
Special	1,285,271	1,251,466	33,805
Co-Curricular	323,669	319,064	4,605
Student services	334,498	283,611	50,887
Other	1,142,417	1,119,351	23,066
Total instructional programs	6,975,865	6,750,813	225,052
Supporting services:			
Pupil support	4,000	3,977	23
Instructional staff	832,316	474,905	357,411
Administrative	402,816	400,976	1,840
School administration	978,222	974,016	4,206
Business support	4,338,769	4,302,328	36,441
Central support	271,135	246,918	24,217
Other	991,309	974,103	17,206
Total supporting services	7,818,567	7,377,223	441,344

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Expenditures: (Continued)			
Current:			
Community services:			
Regular	$ 68,924	$ 68,364	$ 560
Other	12,197	12,131	66
Total community services	81,121	80,495	626
Nonprogrammed charges:			
Payments to other governments	144,000	89,424	54,576
Unbudgeted Federal grant funds	126,690	-	126,690
Contingency	30,000	-	30,000
Total nonprogrammed charges	300,690	89,424	211,266
Total expenditures	15,176,243	14,297,955	878,288
Revenues over (under) expenditures	(988,696)	(703,987)	284,709
Fund balance appropriated	988,696	-	(988,696)
Net change in fund balance	$ -	(703,987)	$ (703,987)
Fund balance:			
Beginning of year		2,286,420	
Increase (decrease) in reserve for inventories		(9,883)	
End of year		$ 1,572,550	

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL OUTLAY FUND
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
State appropriations - school buses	$ 284,517	$ 284,517	$ -
Other:			
Fines and forfeitures	275,000	191,318	(83,682)
Interest earned on investment	-	22,157	22,157
Miscellaneous	3,280	40,933	37,653
Total other	278,280	254,408	(23,872)
Total revenues	562,797	538,925	(23,872)
Expenditures:			
Debt service:			
Principal	284,517	284,517	-
Capital outlay:			
Land, buildings, and site improvement	739,117	202,878	536,239
Furnishings and equipment	76,875	75,934	941
Vehicles and other	68,607	68,607	-
Total expenditures	1,169,116	631,936	537,180
Revenues over (under) expenditures	(606,319)	(93,011)	513,308
Fund balance appropriated	606,319	-	(606,319)
Net change in fund balance	$ -	(93,011)	$ (93,011)
Fund balance:			
Beginning of year		781,125	
End of year		$ 688,114	

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
SCHOOL FOOD SERVICE FUND
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Operating revenues - food sales	$ 1,045,000	$ 864,365	$ (180,635)
Operating expenditures:			
Business support services:			
Purchase of food	-	1,038,616	-
Donated commodities	-	185,663	-
Salaries and benefits	-	1,722,877	-
Indirect costs	-	229,971	-
Materials and supplies	-	125,618	-
Repairs and maintenance	-	24,746	-
Other	-	50,331	-
Capital outlay	-	284,920	-
Total operating expenditures	3,773,754	3,662,742	111,012
Operating income (loss)	(2,728,754)	(2,798,377)	(69,623)
Nonoperating revenues:			
Federal reimbursements	2,322,000	2,420,827	98,827
Fruit and Vegetable Program	11,254	5,619	(5,635)
Federal commodities	162,000	185,663	23,663
State Kindergarten Breakfast Program	-	7,616	7,616
Other grant programs	-	8,000	8,000
Interest earned	500	6,215	5,715
Total nonoperating revenues	2,495,754	2,633,940	138,186
Revenues over(under) expenditures	(233,000)	(164,437)	68,563
Fund balance appropriated	233,000	-	(233,000)
Revenues and fund balance appropriated over(under) expenditures	$ -	(164,437)	$ (164,437)
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(50,280)	
Equipment purchases		284,920	
(Increase) decrease in compensated absences payable		(18,274)	
Increase (decrease) in inventory		20,046	
Change in net assets (full accrual)		$ 71,975	

DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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 Education
Scotland County, North Carolina

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Scotland County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other operational matters involving the internal control over financial reporting that we have reported to the management of the Scotland County Board of Education in a separate letter dated October 24, 2006.

Compliance and Other Matters

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

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

Dixon Hughes PLLC

October 24, 2006
Southern Pines, North Carolina

DIXON HUGHES PLLC

Certified Public Accountants and Advisors

Report On Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act

To the Board of Education
Scotland County, North Carolina

Compliance

We have audited the compliance of the Scotland County Board of Education, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2006. The Scotland County Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Scotland County Board of Education, North Carolina's management. Our responsibility is to express an opinion on the Scotland County Board of Education's compliance based on our audit.

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

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

Internal Control Over Compliance

The management of the Scotland County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Scotland County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

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

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

Dixon Hughes PLLC

October 24, 2006
Southern Pines, North Carolina

DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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 Education
Scotland County, North Carolina

Compliance

We have audited the compliance of the Scotland County Board of Education, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major state programs for the year ended June 30, 2006. The Scotland County Board of Education's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the Scotland County Board of Education, North Carolina's management. Our responsibility is to express an opinion on the Scotland County Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Scotland County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Scotland County Board of Education's compliance with those requirements.

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

Internal Control Over Compliance

The management of the Scotland County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Scotland County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

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

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

Dixon Hughes PLLC

October 24, 2006
Southern Pines, North Carolina

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	*Unqualified*
Internal control over financial reporting:	
• Material weakness(es) identified?	*No*
• Reportable condition(s) identified that are not considered to be material weaknesses	*None*
Noncompliance material to financial statements noted	*No*

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	*No*
• Reportable condition(s) identified that are not considered to be material weaknesses	*None*
Type of auditors' report issued on compliance for major federal programs	*Unqualified*
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	*No*

Identification of major federal programs:

CFDA Numbers	*Name of Federal Program or Cluster*
84.010	Title I, Educationally Deprived Children
	Special Education Cluster:
84.027	Special Education – Grants to States
84.027A	Special Education – Capacity Building and Improvement
84.173	Special Education – Preschool Grants
84.367A	Improving Teacher Quality

Dollar threshold used to distinguish between Type A and Type B Programs	*$ 331,716*
Auditee qualified as low-risk auditee?	*Yes*

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2006

Section I - Summary of Auditors' Results (Continued)

State Awards

Internal control over major state programs:

• Material weakness(es) identified?	*No*
• Reportable condition(s) identified that are not considered to be material weaknesses	*None*
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 the State Single Audit Implementation Act	*No*

Identification of major state programs:

Program Name

State Public School Fund
Vocational Education – State Months of Employment
More at Four

Section II - Financial Statement Findings

No findings were noted that are required to be reported under Government Auditing Standards.

Section III - Federal Award Findings and Questioned Costs

No findings and questioned costs related to the audit of Federal awards aggregating $10,000 or more were noted.

Section IV - State Award Findings and Questioned Costs

No findings and questioned costs related to the audit of state awards aggregating $10,000 or more were noted.

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2006

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Expenditures
Office of Special Education and Rehabilitative Services		
Passed-through the N.C. Department of Public Instruction:		
Special Education Cluster:		
Individuals with Disabilities Education Act		
Special Education - Grants to States	84.027	1,573,062
Special Education - Capacity Building / Improvement	84.027A	9,018
Special Education - Preschool Grants	84.173	68,355
Total Special Education Cluster		1,650,435
Passed-through the N.C. Department of Public Instruction:		
Carl D. Perkins Vocational and Applied Technology		
Education Act Amendments of 1990		
Basic Grants to States		
Program Development	84.048	127,748
Total U.S. Department of Education		7,957,311
U.S. Department of Health and Human Services		
Health Resources and Services Administration		
Passed-through the N.C. Department of Public Instruction:		
Abstinence Education	93.235	9,007
U.S. Department of Defense		
Direct Programs:		
ROTC	NONE	53,952
Total Federal Cash Assistance		10,871,528
Noncash Assistance:		
U.S. Department of Agriculture		
Passed-through the N.C. Department of Agriculture:		
Food Distribution Program	10.550	185,663
Total Federal Assistance		**11,057,191**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Expenditures
State Grants:		
Cash Assistance:		
N.C. Department of Public Instruction:		
State Public School Fund		35,165,139
Vocational Education		
State Months of Employment		1,579,359
Program Support Funds		98,473
Driver Training		168,445
School Technology Fund		166,611
State appropriations - buses		284,517
State Improvement Grant		10,000
Textbooks		398,385
Total N.C. Department of Public Instruction		37,870,929
N.C. Department of Crime Control and Public Safety:		
Division of Governor's Crime Commission:		
Ala-Carte Grant		78,309
N.C. Department of Agriculture:		
State Kindergarten Breakfast Funds		7,616
N.C. Department of Cultural Resources:		
Grassroots Arts Program		13,752
N.C. Department of Health and Human Services:		
TANF After-School Programs and Services for At Risk Youth		77,674
State School Nurse Initiative		80,728
Division of Child Development:		
More at Four Grant		370,480
Total N.C. Department of Health and Human Services		528,882
Total State Assistance		**38,499,488**
Total Federal and State Assistance		**$ 49,556,679**

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

1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Scotland County Board of Education 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.