

**GATES COUNTY
NORTH CAROLINA**

COMPLIANCE LETTERS

FOR THE YEAR ENDED JUNE 30, 2012

**MARTIN ♦ STARNES
& ASSOCIATES, CPAs, P.A.**

"A Professional Association of Certified Public Accountants and Management Consultants"

GATES COUNTY, NORTH CAROLINA

COMPLIANCE LETTERS FOR THE YEAR ENDED JUNE 30, 2012

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

To the Board of Commissioners
Gates County, North Carolina

We have audited the basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Gates County, North Carolina, as of and for the year ended June 30, 2012, not presented here, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 22, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Gates County ABC Board, as described in our report on Gates County's financial statements. The financial statements of the Gates County ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, Responses, and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings, Responses, and Questioned Costs as item 2012-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gates County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Gates County in a separate letter dated October 22, 2012.

Gates County's response to the finding identified in our audit is described in the accompanying Schedule of Findings, Responses, and Questioned Costs. We did not audit the County's response and, accordingly, we express no opinion on it.

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 22, 2012

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act

Independent Auditors' Report

To the Board of Commissioners
Gates County, North Carolina

Compliance

We have audited Gates County's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of Gates County's major federal programs for the year ended June 30, 2012. Gates County's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings, Responses, and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Gates County's management. Our responsibility is to express an opinion on Gates County's compliance based on our audit.

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

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

Internal Control Over Compliance

Management of Gates County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Gates County's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

Schedule of Expenditures of Federal and State Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Gates County, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 22, 2012, which contained an unqualified opinion on those financial statements. We did not audit the financial statements of the Gates County ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Gates County ABC Board, is based solely on the report of the other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Gates County's basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the State Single Audit Implementation Act and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal and State Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.

October 22, 2012

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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Report On Compliance With Requirements That Could Have A Direct And Material Effect On 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

Independent Auditors' Report

To the Board of Commissioners
Gates County, North Carolina

Compliance

We have audited Gates County's compliance with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission that could have a direct and material effect on each of Gates County's major State programs for the year ended June 30, 2012. Gates County's major State programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings, Responses, 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 Gates County's management. Our responsibility is to express an opinion on Gates County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 non-compliance 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 Gates County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Gates County's compliance with those requirements.

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

Internal Control Over Compliance

Management of Gates County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to State programs. In planning and performing our audit, we considered Gates County'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 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

Schedule of Expenditures of Federal and State Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Gates County, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 22, 2012, which contained an unqualified opinion on those financial statements. We did not audit the financial statements of the Gates County ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Gates County ABC Board, is based solely on the report of the other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Gates County, North Carolina's basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the State Single Audit Implementation Act and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal and State Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners, management, 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 22, 2012

GATES COUNTY, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

1. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness identified? Yes
- Significant deficiency identified that is not considered to be a material weakness? No

Non-compliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness identified? No
- Significant deficiency identified that is not considered to be a material weakness? No

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 OMB Circular A-133? No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA #</u>
Medicaid Cluster	93.720, 93.775, 93.777, 93.778
Child Care Development Fund Cluster	93.575, 93.596
CDBG -State Administered CDBG Cluster	14.228, 14.255

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? No

GATES COUNTY, NORTH CAROLINA

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. Summary of Auditors' Results (Continued)

State Awards

Internal control over major State programs:

- Material weakness identified? No
- Significant deficiency identified that is not considered to be a material weakness? No

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

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? No

Identification of major State programs:

Program Name

Medicaid

Subsidized Childcare Cluster

GATES COUNTY, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

2. Findings Related to the Audit of the Basic Financial Statements

2012-01

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board requires a technical training in financial reporting that is not typically consistent with the training required to perform the functions of the Finance Officer.

Context: The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules.

Effect: The County requires assistance from the external auditor in drafting the financial statements.

Cause: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above is cost prohibitive.

Recommendation: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears cost prohibitive. Therefore, the County should exercise due care in reviewing the financial statements drafted by the external auditor as the County is responsible for the accuracy of the audited financial statements.

Contact Person: Toby Chappell, County Manager

Management's Response: Management is aware of the weakness but, due to the cost versus benefit analysis, it will continue to rely on the external auditor to draft the year-end financial statements. The County will exercise due care in reviewing the financial statements drafted by the external auditor. The County acknowledges and accepts responsibility for the accuracy of the audited financial statements

3. Federal Award Findings, Responses, and Questioned Costs

None reported.

4. State Award Findings, Responses, and Questioned Costs

None reported.

GATES COUNTY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Finding: 2011-01

Status: Repeated as 2012-01

GATES COUNTY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Grantor / Pass-Through Grantor / Program Title	CFDA Number	Expenditures	
		Federal	State
Federal Awards:			
U.S. Department of Agriculture			
Food and Nutrition Service:			
Passed-through N.C. Department of Health & Human Services:			
Division of Social Services:			
Administration:			
Supplemental Nutrition Assist. Program Cluster:			
State Administrative Matching Grants for the Supplemental			
Nutritional Assistance Program	10.561	\$ 128,869	\$ -
Total Supplemental Nutrition Assist. Program Cluster		<u>128,869</u>	<u>-</u>
Passed-Through the NC Department of Health and Human Services:			
Division of Public Health:			
Direct Benefit Payments:			
Special Supplemental Nutrition Program for Women, Infants, & Children	10.557	<u>166,834</u>	<u>-</u>
U.S. Department of Transportation			
Federal Transit Administration:			
Passed-through the N.C. Department of Transportation:			
Formula Grants for Other Than Urbanized Areas	20.509	<u>173,985</u>	<u>14,902</u>
Total U.S. Department of Transportation		<u>173,985</u>	<u>14,902</u>
U.S. Department of Homeland Security:			
Passed-through NC Department of Crime Control and Public Safety:			
Emergency Management Performance Grant	97.042	<u>35,261</u>	<u>-</u>
Total U.S. Department of Homeland Security		<u>35,261</u>	<u>-</u>
U.S. Department of Health and Human Services			
Administration for Children and Families:			
Passed-through the NC Dept. of Health and Human Services:			
Division of Social Services:			
Foster Care and Adoption Cluster:			
Title IV-E Foster Care - Administration	93.658	38,813	3,837
Foster Care - Direct Benefit Payments	93.658	<u>11,730</u>	<u>3,131</u>
Total Foster Care and Adoption Cluster		<u>50,543</u>	<u>6,968</u>
Temporary Assistance for Needy Families Cluster:			
Temporary Assistance for Needy Families (TANF)/Work First	93.558	123,035	-
TANF/ Work First - Direct Benefit Payments	93.558	<u>80,271</u>	<u>(7)</u>
Total TANF Cluster		<u>203,306</u>	<u>(7)</u>
NC Child Support Enforcement Section	93.563	<u>213,413</u>	<u>-</u>
Low-Income Home Energy Assistance Block Grant:			
Administration	93.568	<u>97,566</u>	<u>-</u>

GATES COUNTY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Grantor / Pass-Through Grantor / Program Title	CFDA Number	Expenditures	
		Federal	State
Child Welfare Services - State Grants			
Permanency Planning - Families for Kids	93.645	(1,336)	2,422
SSBG - Other Service and Training	93.667	101,899	6,613
Division of Child Development:			
Subsidized Child Care (Note 2)			
Child Care Development Fund Cluster:			
Division of Social Services:			
Child Care Development Fund - Administration	93.596	80,000	-
Division of Child Development:			
Child Care and Development Fund - Discretionary	93.575	135,446	-
Child Care and Development Fund - Mandatory	93.596	49,881	-
Child Care and Development Fund - Match	93.596	17,338	-
Total Child Care Fund Cluster		282,665	-
Temporary Assistance for Needy Families	93.558	59,505	-
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families			
State Programs	93.714	4,401	-
Foster Care Title IV-E		1,815	-
State Appropriations		-	1,083
TANF - MOE		-	9,273
Total Subsidized Childcare Cluster		348,386	10,356
Centers for Medicare and Medicaid Services:			
Passed-through the N.C. Department of Health and Human Services:			
Division of Medical Assistance:			
Direct Benefit Payments:			
Medical Assistance Program	93.778	7,461,834	4,434,935
Division of Social Services:			
Administration:			
Medical Assistance Program	93.778	234,450	5,252
State Children's Insurance Program - N.C. Health Choice	93.767	16,282	463
U.S. Department of Housing and Urban Development:			
Passed-through N.C. Department of Commerce:			
CDBG- State- Administered Small Cities Program Cluster			
Community Development Block Grant:			
Small Cities Program	14.228	144,370	-
Economic Development Program	14.228	225,408	-
Capacity Building Grant	14.228	27,189	-
Total CDBG - State-Adm Small Cities Program Cluster		396,967	-
Total U.S. Department of Housing and Urban Development		396,967	-
Total Federal Awards		\$ 9,628,259	\$ 4,502,269

GATES COUNTY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Grantor / Pass-Through Grantor / Program Title	CFDA Number	Expenditures	
		Federal	State
State Awards:			
N.C. Department of Administration:			
Veterans Service			\$ 1,452
N.C. Department of Health and Human Services:			
Division of Aging and Adult Services:			
Seniors' Health Insurance Information Program (SHIIP)			3,817
Home and Community Care Block Grant			36,576
Division of Social Services:			
State/County Special Assistance for Adults-Direct Benefit Payment			82,673
TANF Incentive/Program Integrity			153
Total Division of Social Services			82,826
Total N.C. Department of Health and Human Services			123,219
N.C. Department of Juvenile Justice and Delinquency Prevention:			
Juvenile Crime Prevention Program			32,706
CBA Genesis			28,593
Baby Love Grant			38,000
Total N.C. Department of Juvenile Justice and Delinquency Prevention			99,299
N.C. Department of Agriculture and Consumer Services:			
Environmental - Pesticide Grant			1,220
N.C. Department of Public Instruction:			
Lottery Proceeds			126,865
N.C. Department of Environment & Natural Resources:			
Soil & Water Conservation			20,365
N.C. Department of Transportation:			
Rural Operating Assistance Program (ROAP)			
ROAP Elderly and Disabled Transportation Assistance Program			49,329
ROAP Rural General Public Program			41,599
ROAP Work First Transitional - Employment Transportation Assistance Program			7,886
Total ROAP			98,814
Total State Awards			471,234
Total Federal and State Awards		\$ 9,628,259	\$ 4,973,503

GATES COUNTY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2012

Grantor / Pass-Through Grantor / Program Title	CFDA Number	Expenditures	
		Federal	State

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

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of Gates County 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, Non-Profit Organizations*, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the County's basic financial statements. However, due to the County's involvement in determining eligibility, they are considered federal awards to the County and are included on this schedule.

2. Subrecipients

The following are clustered by the N.C. Department of Health and Human Services and are treated separately for State audit requirement purposes:

Subsidized Child Care and Foster Care and Adoption