

Town of China Grove
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 June 30, 2009

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Town Council
Town of China Grove, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of China Grove, North Carolina as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of China Grove's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, and each major fund of the Town of China Grove, North Carolina as of June 30, 2009, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2009 on our consideration of the Town of China Grove's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the 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.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance's Schedule of Funding Progress and Schedule of Employer Contributions on pages 3 through 14 and 42 and 43 respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of China Grove, North Carolina. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sherrill & Smith, CPAs, PA

October 30, 2009

Management's Discussion and Analysis

As management of the Town of China Grove, we offer readers of the Town of China Grove's financial statements this narrative overview and analysis of the financial activities of the Town of China Grove for the fiscal year ended June 30, 2009. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the town's financial statements, which follow this narrative.

Financial Highlights

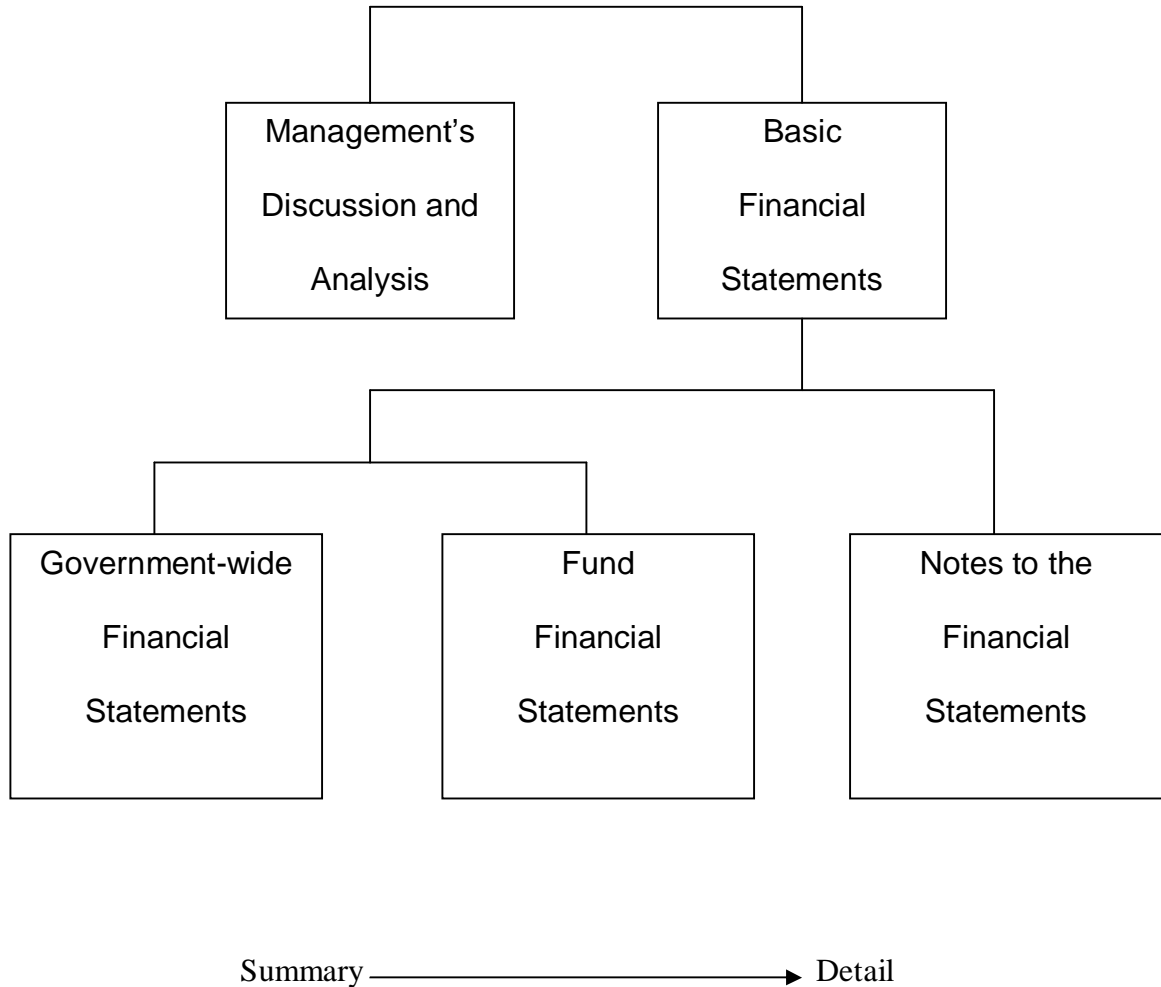
- The assets of the Town of China Grove *exceeded* its liabilities at the close of the fiscal year by \$ 8,012,890 (*net assets*).
- The government's total net assets decreased by \$ 19,428 primarily due to a decrease in the business-type activities net assets.
- As of the close of the current fiscal year, the Town of China Grove's governmental funds reported combined ending fund balances of \$ 2,371,459, an increase of \$ 122,921 in comparison with the prior year. Approximately 69.03 % of this total amount or \$ 1,637,001 is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$ 1,438,694 or 64.6 % of total general fund expenditures for the fiscal year, which is a 7.7% increase from last fiscal year.
- The Town of China Grove's total debt decreased \$ 550,900 during the current fiscal year. The key factor in this decrease was the debt service payments made during the fiscal year.
- This Fiscal year 2008-2009, the Town of China Grove did raise utility rates and the revenues decreased. The decrease in revenues was attributed to the loss of a major utility user.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of China Grove's basic financial statements. The town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of China Grove.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

Management Discussion and Analysis Town of China Grove

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the town's financial status as a whole.

The two government-wide statements report the town's net assets and how they have changed. Net assets are the difference between the town's assets and total liabilities. Measuring net assets is one way to gauge the town's condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the town charges customers to provide. These include the water and sewer services offered by the Town of China Grove. The Town of China Grove does not have any component units.

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

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of China Grove like all other governmental entities in North Carolina uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the town's budget ordinance. All of the funds of the Town of China Grove can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual*

Management Discussion and Analysis
Town of China Grove

accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 24 through 41 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of China Grove's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 42 of this report.

Government-Wide Financial Analysis

The Town of China Grove's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,539,258	\$ 2,399,336	\$ 418,571	\$ 828,018	\$ 2,957,829	\$ 3,227,354
Capital assets	730,903	820,566	9,947,389	10,163,841	10,678,292	10,984,407
Total assets	3,270,161	3,219,902	10,365,960	10,991,859	13,636,121	14,211,761
Long-term liabilities outstanding	117,140	185,129	5,129,905	5,607,037	5,247,045	5,792,166
Other liabilities	103,901	92,301	272,285	294,976	376,186	387,277
Total liabilities	221,041	277,430	5,402,190	5,902,013	5,623,231	6,179,443
Net assets:						
Invested in capital assets, net of related debt	700,550	714,708	4,829,552	4,570,607	5,530,102	5,285,315
Restricted	186,151	166,101	-	-	186,151	166,101
Unrestricted	2,162,419	2,061,663	134,218	519,239	2,296,637	2,580,902
Total net assets	\$ 3,049,120	\$ 2,942,472	\$ 4,963,770	\$ 5,089,846	\$ 8,012,890	\$ 8,032,318

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of China Grove exceeded liabilities by \$ 8,012,890 as of June 30, 2009. The town's net assets decreased by \$ 19,428 for the fiscal year ended June 30, 2009. However, the largest portion (69.01%) reflects the town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of China Grove uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of China Grove's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of China Grove's net assets (2.32%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 2,296,637 is unrestricted.

Management Discussion and Analysis
Town of China Grove

Town of China Grove's Changes in Net Assets
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 26,504	\$ 80,925	\$ 1,748,002	\$ 1,749,861	\$ 1,774,506	\$ 1,830,786
Operating grants and contributions	241,028	256,073	-	271,946	241,028	528,019
General revenues:						
Property taxes	1,097,199	1,090,640	-	-	1,097,199	1,090,640
Grants and contributions not restricted to specific programs	907,089	993,136	-	-	907,089	993,136
Other	83,437	124,688	13,712	51,585	97,149	176,273
Total revenues	2,355,257	2,545,462	1,761,714	2,073,392	4,116,971	4,618,854
Expenses:						
General government	417,584	361,613	-	-	417,584	361,613
Public safety	990,936	981,466	-	-	990,936	981,466
Transportation	114,557	81,087	-	-	114,557	81,087
Environmental protection	582,461	580,559	-	-	582,461	580,559
Economic and physical development	59,165	58,096	-	-	59,165	58,096
Cultural and recreation	80,655	83,048	-	-	80,655	83,048
Interest on long-term debt	3,251	6,676	-	-	3,251	6,676
Water and sewer	-	-	1,887,790	1,823,206	1,887,790	1,823,206
Total expenses	2,248,609	2,152,545	1,887,790	1,823,206	4,136,399	3,975,751
Increase in net assets	106,648	392,917	(126,076)	250,186	(19,428)	643,103
Net assets, July 1	2,942,472	2,549,555	5,089,846	4,839,660	8,032,318	7,389,215
Net assets, June 30	\$ 3,049,120	\$ 2,942,472	\$ 4,963,770	\$ 5,089,846	\$ 8,012,890	\$ 8,032,318

Management Discussion and Analysis
Town of China Grove

Governmental activities. Governmental activities increased the town's net assets by \$ 106,648. Key elements of this increase are as follows:

- Revenues increased and unnecessary expenditures were minimized or eliminated.
- Continued efforts to increase the Town's fund balance to a healthy level.

Business-type activities: Business-type activities decreased the Town of China Grove's net assets by \$ 126,076, accounting for the total decrease in the government's net assets. The key element of this decrease is as follows:

- The use of fund balance to sustain the Utility fund.
- The loss of Hanes Brand a key Utility Customer.

Financial Analysis of the Town's Funds

As noted earlier, the Town of China Grove uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town of China Grove's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the town's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the town. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$ 1,438,694, while total fund balance reached \$ 2,173,152. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 63.98 % of total General Fund expenditures, while total fund balance represents 96.64 % of that same amount.

At June 30, 2009, the governmental funds of the Town of China Grove reported a combined fund balance of \$2,371,459 a 5.46 % increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Capital Reserve Funds.

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

Expenditures increased in the Recreation department from the previous year, due to Capital outlay for some new playground equipment and some maintenance in the towns parks this fiscal year. The additional revenue came from a decrease in expenditures in the Fire Department. Staff recognizes that these shifts in priorities and need occur each year, and that the budget ultimately serves as a guide to what is expected during the upcoming twelve months. As the Town's record keeping improves over previous years, the Town can better prepare for these unforeseen shifts.

Proprietary Funds. The town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Utility Fund at the end of the fiscal year amounted to \$ 134,218. Other factors concerning the finances of these two funds have already been addressed in the discussion of the town's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of China Grove's investment in capital assets for its governmental and business-type activities as of June 30, 2009, totals \$ 10,678,292 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, and vehicles.

The Town of China Grove did not purchase many capital items during the fiscal year. Capital purchases include two police cruisers that will aid in patrols and other law enforcement duties. The town saw the completion of the CDBG Project which included Water and Sewer lines in the annexation area at Bostian Rd. All of these purchases were anticipated and funds allocated in the budget.

Town of China Grove's Capital Assets

Figure 4

	(net of depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 50,912	\$ 50,912	\$ -	\$ -	\$ 50,912	\$ 50,912
Buildings and system	228,445	238,903	-	-	228,445	238,903
Improvements other than buildings	85,170	90,911	-	-	85,170	90,911
Machinery and equipment	366,376	439,840	-	-	366,376	439,840
Infrastructure	-	-	9,863,246	10,061,472	9,863,246	10,061,472
Vehicles and motorized equipment	-	-	84,143	102,369	84,143	102,369
Total	\$ 730,903	\$ 820,566	\$ 9,947,389	\$ 10,163,841	\$ 10,678,292	\$ 10,984,407

Additional information on the town's capital assets can be found in the Notes to The Financial Statements.

Long-term Debt. As of June 30, 2009, the Town of China Grove had no bonded debt.

The Town of China Grove's total debt decreased \$550,900 during the past fiscal year. The decrease in long term debt is due to the fact that the Town of China Grove made all scheduled debt service payments for the year and incurred no new debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 % of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of China Grove is \$ 17,921,527. The town has \$ 0 in bonds authorized but un-issued at June 30, 2009.

Additional information regarding the Town of China Grove's long-term debt can be found in Notes to the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town of China Grove.

- Rowan County's unemployment rate is 12.8% which is higher than the States unemployment rate of 10.4%. However, with the pending job creation coming due to the Biotech Research Center and Sustainable Textiles, the unemployment rate should drop back below the State average.
- Occupancy Rates on office and retail space. The downtown area has maintained an occupancy rate of approximately 95% while we have seen a transition from service oriented businesses to more retail oriented businesses.
- New Construction. China Grove has seen new office and retail space constructed within the past twelve months. This is occurring on Highway 29, the Town's major commercial corridor.
- The work is continuing on the biotechnology research campus in Kannapolis, North Carolina, that will create 5,000 hi-tech jobs and create spin-off employment of approximately 30,000 jobs. This site is approximately 5 miles from the Town of China Grove. The construction is finished on the Core Building and construction is continuing on several other buildings.

Budget Highlights for the Fiscal Year Ending June 30, 2010

Governmental Activities: Operating revenues in the General Fund have remained fairly consistent over the past several years. The tax rate will remain at \$.38 per \$100 of value. The current trend is that the Town is relying more and more on ad valorem tax revenues. Total property tax revenues are anticipated to be \$1,127,900. This is 52% of the total General Fund Revenue. The remaining revenue streams for the Town primarily include Sales Tax and Utility Franchise Taxes. These two revenues are projected to bring in \$904,000 or 42% of the total General Fund Revenues. Combined, these three revenue sources account for approximately 95% of the General Fund Revenues.

This coming years General Fund budget is approximately \$364,800 less than anticipated revenues from the previous year's budget. Conservative budgeting practices by the Mayor and Town Council have afforded the Town the opportunity to fund its needs, while lowering an already low tax rate. The highlight of this budget in the general fund is the purchase a Mini Pumper brush truck to handle brush fires throughout the community. This is the culmination of a six year capital reserve initiative so as to avoid additional debt in the General Fund. There are also funds available to replace one police patrol vehicle, as well as a dump truck and service vehicle for the public works department.

Business – type Activities: Operating revenues in the Utility Fund come primarily from water and sewer sales. Additional revenue comes from tap fees and reconnection fees. Water and Sewer rates will increase 2.9% for the coming fiscal year with an additional Debt Service Fee for all accounts. The primary reason for the rate increase and special fee is the additional debt service requirements for the recently completed I-85 sewer project, as well as continued annual utility rate increases from the City of Salisbury. For several years the Town of China Grove absorbed all or a portion of the utility rate increase from Salisbury. Water and Sewer sales account for 87.49% of the total fund's revenue.

Management Discussion and Analysis
Town of China Grove

Requests for Information

This report is designed to provide an overview of the town finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

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TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2009

Exhibit 1

Assets	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and cash equivalents	\$ 1,927,019	\$ 535,225	\$ 2,462,244
Taxes receivable (net)	51,621	-	51,621
Accrued interest receivable on taxes	12,313	-	12,313
Accounts receivable (net)	1,489	195,432	196,921
Other current assets	1,203	-	1,203
Due from other governments	233,527	-	233,527
Internal balances	312,086	(312,086)	-
Total current assets	<u>2,539,258</u>	<u>418,571</u>	<u>2,957,829</u>
Capital assets:			
Land, non-depreciable improvements, and construction in progress	50,912	-	50,912
Other capital assets, net of depreciation	679,991	9,680,629	10,360,620
Water line rights, net of amortization	-	266,760	266,760
Total capital assets	<u>730,903</u>	<u>9,947,389</u>	<u>10,678,292</u>
Total assets	<u>3,270,161</u>	<u>10,365,960</u>	<u>13,636,121</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	103,857	198,621	302,478
Accrued interest payable	40	21,914	21,954
Unearned revenue	4	-	4
Customer deposits	-	51,750	51,750
Current portion of long-term liabilities	56,890	481,486	538,376
Long-term liabilities:			
Due in more than one year	60,250	4,648,419	4,708,669
Total liabilities	<u>221,041</u>	<u>5,402,190</u>	<u>5,623,231</u>
Net Assets			
Invested in capital assets, net of related debt	700,550	4,829,552	5,530,102
Restricted for:			
Other purposes	186,151	-	186,151
Unrestricted	2,162,419	134,218	2,296,637
Total net assets	<u>\$ 3,049,120</u>	<u>\$ 4,963,770</u>	<u>\$ 8,012,890</u>

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

TOWN OF CHINA GROVE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 417,584	\$ -	\$ -	\$ -	\$ (417,584)	\$ -	\$ (417,584)
Public Safety	990,936	7,044	111,132	-	(872,760)	-	(872,760)
Transportation	114,557	-	129,896	-	15,339	-	15,339
Environmental protection	582,461	6,029	-	-	(576,432)	-	(576,432)
Economic and physical development	59,165	3,046	-	-	(56,119)	-	(56,119)
Cultural and recreation	80,655	10,385	-	-	(70,270)	-	(70,270)
Interest on long-term debt	3,251	-	-	-	(3,251)	-	(3,251)
Total governmental activities (See Note 1)	2,248,609	26,504	241,028	-	(1,981,077)	-	(1,981,077)
Business-type activities:							
Water and sewer	1,887,790	1,748,002	-	-	-	(139,788)	(139,788)
Total business-type activities	1,887,790	1,748,002	-	-	-	(139,788)	(139,788)
Total primary government	\$ 4,136,399	\$ 1,774,506	\$ 241,028	\$ -	(1,981,077)	(139,788)	(2,120,865)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					1,097,199	-	1,097,199
Grants and contributions not restricted to specific programs					907,089	-	907,089
Unrestricted investment earnings					33,227	13,712	46,939
Miscellaneous					50,210	-	50,210
Total general revenues and transfers					2,087,725	13,712	2,101,437
Change in net assets					106,648	(126,076)	(19,428)
Net assets, beginning					2,942,472	5,089,846	8,032,318
Net assets, ending					\$ 3,049,120	\$ 4,963,770	\$ 8,012,890

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

TOWN OF CHINA GROVE, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

Exhibit 3

	General Fund	Capital Reserve Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,728,712	\$ 198,307	\$ 1,927,019
Taxes receivable (net)	51,621	-	51,621
Account receivable (net)	1,489	-	1,489
Other current assets	1,203	-	1,203
Due from other governments	233,527	-	233,527
Due from other funds	312,086	-	312,086
	<u>2,328,638</u>	<u>198,307</u>	<u>2,526,945</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	103,861	-	103,861
Deferred revenue	51,621	-	51,621
Unearned revenue	4	-	4
	<u>155,486</u>	<u>-</u>	<u>155,486</u>
Fund balances			
Reserved by State statute	548,307	-	548,307
Reserved for streets - Powell Bill	186,151	-	186,151
Unreserved, General Fund	1,438,694	-	1,438,694
Unreserved, reported in:			
Capital Reserve Fund	-	198,307	198,307
	<u>2,173,152</u>	<u>198,307</u>	<u>2,371,459</u>
Total liabilities and fund balances	<u>\$ 2,328,638</u>	<u>\$ 198,307</u>	
Amounts reported for governmental activities in the statement of activities are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Land, non-depreciable improvements, and construction in progress		\$ 50,912	
Gross capital assets at historical cost		2,588,826	
Accumulated depreciation		(1,908,835)	730,903
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and, therefore, are deferred in the funds			12,313
Liabilities for earned but deferred revenues in fund statements.			51,621
Some liabilities, including accrued interest and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.			(117,176)
Net assets of governmental activities			\$ 3,049,120

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

Exhibit 4

	General Fund	Capital Reserve Fund	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 1,091,892	\$ -	\$ 1,091,892
Unrestricted intergovernmental	907,089	-	907,089
Restricted intergovernmental	241,028	-	241,028
Permits and fees	26,504	-	26,504
Investment earnings	30,358	2,869	33,227
Miscellaneous	50,207	-	50,207
Total Revenues	2,347,078	2,869	2,349,947
Expenditures			
Current			
General Government	405,768	-	405,768
Public safety	929,767	-	929,767
Transportation	113,536	-	113,536
Environmental protection	564,394	-	564,394
Economic and physical development	59,165	-	59,165
Cultural and recreational	75,547	-	75,547
Debt Service			
Principal retirement	75,505	-	75,505
Interest	3,344	-	3,344
Total expenditures	2,227,026	-	2,227,026
Excess (deficiency) of revenues over expenditures	120,052	2,869	122,921
Other financing sources (uses):			
Internal transfers	(30,000)	30,000	-
Total other financing sources (uses)	(30,000)	30,000	-
Net change in fund balance	90,052	32,869	122,921
Fund balances, beginning	2,083,100	165,438	2,248,538
Fund balance, end	\$ 2,173,152	\$ 198,307	\$ 2,371,459

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

Exhibit 4

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

Net changes in fund balances - total governmental funds \$ 122,921

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

Capital outlay expenditures which were capitalized	\$ 59,309	
Depreciation expense for government assets	<u>(148,973)</u>	(89,664)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.

Change in deferred revenue for tax revenues 5,308

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 treatment of long-term debt and related items.

75,505

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		(692)
Accrued interest expense		94
Net pension obligation		<u>(6,824)</u>

Total changes in net assets of governmental activities \$ 106,648

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
For the Year Ended June 30, 2009

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
Revenues				
Ad valorem taxes	1,075,900	\$ 1,075,900	\$ 1,091,892	\$ 15,992
Unrestricted intergovernmental	992,900	992,900	907,089	(85,811)
Restricted intergovernmental	235,700	235,700	241,028	5,328
Permits and fees	21,800	21,800	26,504	4,704
Investment earnings	30,000	30,000	30,358	358
Miscellaneous	23,000	23,000	50,207	27,207
Total revenues	2,379,300	2,379,300	2,347,078	(32,222)
Expenditures				
Current				
General government	430,090	438,115	405,768	32,347
Public safety	1,222,610	1,113,750	929,767	183,983
Transportation	135,000	135,000	113,536	21,464
Environmental protection	682,450	682,450	564,394	118,056
Economic and physical development	68,350	68,350	59,165	9,185
Cultural and recreational	95,800	85,700	75,547	10,153
Debt service				
Principal retirement	-	75,560	75,505	55
Interest	-	3,400	3,344	56
Total expenditures	2,634,300	2,602,325	2,227,026	375,299
Revenues over (under) expenditures	(255,000)	(223,025)	120,052	343,077
Other financing sources (uses):				
Transfer to capital reserve	-	(30,000)	(30,000)	-
Transfer from capital reserve fund	180,000	180,000	-	(180,000)
Proceeds from borrowing	75,000	75,000	-	(75,000)
Contingency	-	(1,975)	-	1,975
Total other financing sources (uses)	255,000	223,025	(30,000)	(253,025)
Net change in fund balance	\$ -	\$ -	90,052	\$ 90,052
Fund balance, beginning			2,083,100	
Fund balance, end			<u>2,173,152</u>	

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

Exhibit 6

Assets	<u>Utility Fund</u>	<u>Total Proprietary Funds</u>
Current Assets:		
Cash and cash equivalents	\$ 535,225	\$ 535,225
Accounts receivable (net) - customers	192,216	192,216
Accounts receivable (net) - other	3,216	3,216
Total current assets	<u>730,657</u>	<u>730,657</u>
Capital Assets:		
Capital assets, net of depreciation	9,680,629	9,680,629
Water line rights, net of amortization	266,760	266,760
Total capital assets	<u>9,947,389</u>	<u>9,947,389</u>
Total Assets	<u>10,678,046</u>	<u>10,678,046</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	198,621	198,621
Accrued interest payable	21,914	21,914
Customer deposits	51,750	51,750
Installment purchase - current	475,396	475,396
Compensated absences - current	6,090	6,090
Due to other funds	312,086	312,086
Current liabilities	<u>1,065,857</u>	<u>1,065,857</u>
Noncurrent Liabilities		
Long-term debt - non-current	4,642,442	4,642,442
Compensated absences - non-current	5,977	5,977
Non current liabilities	<u>4,648,419</u>	<u>4,648,419</u>
Total liabilities	<u>5,714,276</u>	<u>5,714,276</u>
Net Assets		
Invested in capital assets, net of related debt	4,829,552	4,829,552
Unrestricted	134,218	134,218
Total net assets	<u>\$ 4,963,770</u>	<u>\$ 4,963,770</u>

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

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2009

Exhibit 7

	<u>Utility Fund</u>	<u>Total Proprietary Funds</u>
Operating revenues:		
Charges for services	\$ 1,714,512	\$ 1,714,512
Water and sewer taps	13,750	13,750
Other operating revenues	<u>19,740</u>	<u>19,740</u>
Total operating revenues	<u>1,748,002</u>	<u>1,748,002</u>
Operating expenses:		
Water distribution	725,960	725,960
Sewer collection	618,123	618,123
Depreciation	312,974	312,974
Amortization of water line rights	<u>88,920</u>	<u>88,920</u>
Total operating expenses	<u>1,745,977</u>	<u>1,745,977</u>
Operating income (loss)	<u>2,025</u>	<u>2,025</u>
Nonoperating revenues (expenses):		
Investment earnings	13,712	13,712
Interest expense	<u>(141,813)</u>	<u>(141,813)</u>
Total nonoperating revenues (expenses)	<u>(128,101)</u>	<u>(128,101)</u>
Change in net assets	(126,076)	(126,076)
Total net assets, beginning	<u>5,089,846</u>	<u>5,089,846</u>
Total net assets, ending	<u><u>\$ 4,963,770</u></u>	<u><u>\$ 4,963,770</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2009

Exhibit 8

Cash flows from operating activities:	
Cash received from customers	\$ 1,739,458
Cash paid for goods and services	(1,171,901)
Cash paid to or on behalf of employees	(133,406)
Customer deposits received and returned	<u>8,248</u>
Net cash provided (used) by operating activities	<u>442,399</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(232,302)
Principal payments on installment purchase	(475,396)
Interest paid on installment purchase	<u>(144,107)</u>
Net cash provided by (used in) capital and related financing activities	<u>(851,805)</u>
Cash flows from investing activities:	
Interest on investments	<u>13,712</u>
Net increase (decrease) in cash and cash equivalents	(395,694)
Balance, beginning	<u>930,919</u>
Balance, ending	<u><u>535,225</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	<u>2,025</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	312,974
Amortization	88,920
Change in assets and liabilities:	
(Increase) decrease in accounts receivable-customers	(8,543)
(Increase) decrease in accounts receivable-other	22,298
Increase (decrease) in accounts payable and accrued liabilities	16,477
Increase (decrease) in customer deposits	<u>8,248</u>
Total adjustments	<u>440,374</u>
Net cash provided by (used in) operating activities	<u><u>\$ 442,399</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

I. Summary of Significant Accounting Policies

The accounting policies of the Town of China Grove 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 Town of China Grove is a municipal corporation, which is governed by an elected mayor and a five-member Board of Aldermen. These financial statements present financial information of the Town as required by generally accepted accounting principles.

B. Basis of Presentation

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

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

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

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

The Town reports the following major governmental funds:

General Fund- The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

Capital Reserve Fund- This fund is used to accumulate cash for the purchase of a public safety vehicle.

The Town reports the following major enterprise funds:

Utility Fund- This fund is used to account for the Town's water and sewer operations.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

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

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Rowan County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of China Grove. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Rowan County from March 2008 through February 2009 apply to the fiscal year ended June 30, 2009. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for Enterprise Fund Capital Project Funds. The enterprise fund projects are consolidated with the operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than 10%. All amendments must be approved by the governing board. 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 Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate as, an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Town 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.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

3. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2007. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

4. Allowances for Doubtful Accounts

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

5. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; Buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30 – 40
Buildings	50
Improvements	25
Vehicles	5 - 6
Furniture and equipment	10
Computer equipment	3

6. Long-Term Obligations

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

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

7. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

8. Net Assets/Fund Balances

Net Assets

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

Fund Balances

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

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget 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 fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved

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

Reserved for streets - Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill Funds.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

Unreserved

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation that has been designated for the adopted 2008-2009 budget ordinance.

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

II. Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes: None.

2. Contractual Violations: None.

B. Deficit Fund Balance or Retained Earnings of Individual Funds: None.

C. Excess of Expenditures Over Appropriations: The Town's appropriations were authorized at the department level. For the fiscal year ended June 30, 2009, the expenditures made in the Town's Utility Fund exceeded the authorized appropriations made by the governing board for water distribution by \$490. Management and the Board will more closely review the budget reports to ensure compliance in future years.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agent in the Town'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 Town, these deposits are considered to be held by the Town's agent in the Town'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 Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits.

At June 30, 2009, the Town's deposits had a carrying amount of \$906,065 and a bank balance of \$916,515. All of the bank balance was covered by federal depository insurance. At June 30, 2009, the Town's petty cash fund totaled \$450.

2. Investments

At June 30, 2009, the Town of China Grove had \$1,555,729 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

3. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2009, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 50,912	\$ -	\$ -	\$ 50,912
Total capital assets not being depreciated	<u>50,912</u>	<u>-</u>	<u>-</u>	<u>50,912</u>
Capital assets being depreciated:				
Buildings	522,923	-	-	522,923
Equipment	1,863,070	59,309	-	1,922,379
Other improvements	143,525	-	-	143,525
Total capital assets being depreciated	<u>2,529,518</u>	<u>59,309</u>	<u>-</u>	<u>2,588,827</u>
Less accumulated depreciation for:				
Buildings	284,020	10,458	-	294,478
Equipment	1,423,230	132,773	-	1,556,003
Other improvements	52,614	5,741	-	58,355
Total accumulated depreciation	<u>1,759,864</u>	<u>\$ 148,972</u>	<u>\$ -</u>	<u>1,908,836</u>
Total capital assets being depreciated, net	<u>769,654</u>			<u>679,991</u>
Governmental activity capital assets, net	<u>\$ 820,566</u>			<u>\$ 730,903</u>

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

General government	\$ 13,885
Public safety	110,138
Transportation	1,021
Environmental protection	18,821
Cultural and recreation	<u>5,107</u>
Total depreciation expense	<u>\$ 148,972</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2009, was as follows-continued:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 1,165,484	\$ 185,442	\$1,350,926	\$ -
Capital assets being depreciated:				
Pumps and pump house	57,653	-	-	57,653
Sewer and plant lines	5,361,063	-	-	5,361,063
Vehicles and equipment	588,729	-	-	588,729
Water and sewer systems	5,227,019	1,350,926	-	6,577,945
Wells	51,132	-	-	51,132
Total capital assets being depreciated	11,285,596	1,350,926	-	12,636,522
Less accumulated depreciation for:				
Pumps and pump house	48,769	1,615	-	50,384
Sewer and plant lines	851,434	140,477	-	991,911
Vehicles and equipment	486,360	18,226	-	504,586
Water and sewer systems	1,209,342	152,264	-	1,361,606
Wells	47,014	392	-	47,406
Total accumulated depreciation	2,642,919	312,974	-	2,955,893
Total capital assets being depreciated, net	8,642,677			9,680,629
Capital assets being amortized:				
Water line rights	355,680	\$ -	\$ 88,920	266,760
Business-type activities capital assets, net	<u>\$10,163,841</u>			<u>\$ 9,947,389</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2009

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description- The Town of China Grove contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Road, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy- Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.92% and 4.92%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of China Grove are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2009, 2008, and 2007 were \$43,765, \$37,746, and \$38,860, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2008 the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>11</u>
Total	<u><u>11</u></u>

A separate report was not issued for the plan.

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2009

2. Summary of Significant Accounting Policies:

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

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

3. Contributions- The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefits payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to make these payments was established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2008 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% - 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases.

Annual Pension Cost and Net Pension Obligation- The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 6,497
Interest on net pension obligation	2,091
Adjustment to annual required contribution	(1,764)
Annual pension cost	6,824
Contributions made	-
Increase (decrease) in net pension obligation	6,824
Net pension obligation beginning of year	28,847
Net pension obligation end of year	\$ 35,671

For Year Ended June 30	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
2007	\$5,670	0.00%	\$23,628
2008	\$5,219	0.00%	\$28,847
2009	\$6,824	0.00%	\$35,671

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

4. Funding Status and Funding Progress- As of December 31, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$48,574. The covered payroll (annual payroll of active employees covered by the plan) was \$356,714, and the ratio of the UAAL to the covered payroll was 13.62 percent.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description- The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy- Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2009 were \$20,399, which consisted of \$18,601 from the Town and \$1,798 from the law enforcement officers.

d. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description- The State of North Carolina contributes, on behalf of the Town of China Grove, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund 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 the Fund. 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 \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The Town pays its members' required contributions on their behalf. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2009

e. Other Employment Benefit

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount. The City considers these contributions to be immaterial.

2. Deferred / Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Prepaid taxes (General Fund)	\$ -	\$ 4
Taxes receivable (General Fund)	51,621	-
	\$ 51,621	\$ 4

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, worker's compensation coverage up to the statutory limits, and employee health coverage up to \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property liability in excess of \$500,000 and \$300,000 statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town has purchased commercial flood insurance.

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

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2009

4. Reconciliation of Powell Bill Expenditures

The following is a reconciliation of Powell Bill expenditures:

Per financial statements-transportation	\$ 113,536
Deduct accounts payable item not on Powell Bill report	<u>(772)</u>
	<u>\$ 112,764</u>

5. Long-Term Obligations

a. Installment Purchase

The Town entered into a finance agreement to finance the purchase of a fire truck in September 1999. The finance agreement requires monthly payments of principal and interest totaling \$4,951.30, which began in October 2000. The terms of the loan state that interest accrues at the rate of 4.5% per annum. In May 2004, the Town refinanced that agreement to reduce the rate of interest to 4.25% per annum, which reduced the required monthly payment to \$4,902.89 beginning in May of 2004.

The future minimum payments as of June 30, 2009 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 15,710	\$ 115
	\$ 15,710	\$ 115

b. Installment Purchase

The Town entered into a finance agreement to finance the purchase lights for the little league field in March 2007. The finance agreement requires quarterly payments of principal and interest totaling \$5,003.62, which began in June 2007. The terms of the loan state that interest accrues at the rate of 5.067% per annum.

The future minimum payments as of June 30, 2009 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 14,644	\$ 378
	\$ 14,644	\$ 378

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2009

c. Installment Purchase

The Town has borrowed \$2,831,784 from the Drinking Water Revolving Loan Program, which is administered by the State of North Carolina, to upgrade its water system. The terms of the loan state that interest will accrue at the rate of 2.6% per annum. Interest payments will be made semiannually, payable on or before May 1 and November 1 beginning November 1, 2001. The principal sum shall be repaid in equal annual installments of \$176,986.50 beginning on May 1, 2002.

The future minimum payments of the installment purchase as of June 30, 2009 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 176,987	\$ 36,813
2011	176,987	32,212
2012	176,987	27,610
2013	176,987	23,008
2014	176,987	18,407
2015-2017	530,957	27,610
	<u>\$1,415,892</u>	<u>\$ 165,660</u>

d. Installment Purchase

The Town has borrowed \$1,678,136 from the Clean Water Revolving Loan Program, which is administered by the State of North Carolina, to upgrade its sewer system. The terms of the loan state that interest will accrue at the rate of 2.57% per annum. Interest payments will be made semiannually, payable on or before May 1 and November 1 beginning May 1, 2004. The principal sum shall be repaid in equal annual installments of \$83,906.80 beginning on May 1, 2004.

The future minimum payments of the installment purchase as of June 30, 2009 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 83,907	\$ 30,190
2011	83,907	28,033
2012	83,907	25,876
2013	83,907	23,720
2014	83,907	21,564
2015-2019	419,534	75,474
2020-2023	335,626	21,564
	<u>\$1,174,695</u>	<u>\$ 226,421</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2009

e. Installment Purchase

The Town has borrowed \$2,511,656 from the Clean Water Revolving Loan Program, which is administered by the State of North Carolina, to extend its sewer system. The terms of the loan state that interest will accrue at the rate of 2.305% per annum. Interest payments will be made semiannually, payable on or before May 1 and November 1 beginning November 1, 2007. The principal sum shall be repaid in 20 equal annual installments of \$125,582.80 beginning on May 1, 2008.

The future minimum payments of the installment purchase as of June 30, 2009 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 125,583	\$ 52,104
2011	125,583	49,210
2012	125,583	46,315
2013	125,583	43,420
2014	125,583	40,526
2015-2019	627,914	159,208
2020-2024	627,914	86,841
2025-2027	376,747	17,368
	<u>\$2,260,490</u>	<u>\$ 494,992</u>

f. Installment Purchases

Salisbury Water Line- In 2002, Rowan County borrowed \$7,830,213 at 4.6% to be paid back over 10 years to finance the construction of a water line from Salisbury to Southern Rowan County. Semi-annual principal and interest payments on the note began in November of 2002. The Town of China Grove has committed to pay 11.36% of the payments which amounts to a total of \$1,104,216. At June 30, 2007 the Town's unpaid commitment amount is \$444,600. This commitment is being shown as a long-term liability in the Utility Fund. The payments are being treated as debt service expense in the Utility Fund. An asset equal to the unpaid commitment has been recorded in the Utility Fund with a description of "water line rights, net of amortization".

The future minimum payments of the installment purchase as of June 30, 2009 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 88,920	\$ 11,258
2011	88,920	7,166
2012	88,920	3,082
	<u>\$ 266,760</u>	<u>\$ 21,506</u>

At June 30, 2009 the Town of China Grove, North Carolina had a legal debt margin of \$17,921,527.

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2009

g. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 105,859	\$ -	\$ 75,505	\$ 30,354	\$ 30,354
Compensated absences	50,423	692	-	51,115	26,536
Net pension benefit	28,847	6,824	-	35,671	-
Governmental activities long-term liabilities	<u>185,129</u>	<u>7,516</u>	<u>75,505</u>	<u>117,140</u>	<u>56,890</u>
Business type activities:					
Installment purchases	5,593,233	-	475,395	5,117,838	475,396
Compensated absences	13,804	-	1,737	12,067	6,090
Business-type activities long-term liabilities	<u>\$ 5,607,037</u>	<u>\$ -</u>	<u>\$ 477,132</u>	<u>\$ 5,129,905</u>	<u>\$ 481,486</u>

C. Interfund Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2009, consist of the following:

Due to the General Fund from the Utility Fund \$ 312,086

The interfund balance resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The balance due to the General Fund from the Utility Fund is not expected to be repaid within one year.

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2009, consist of the following:

From the General Fund to the Capital Reserve Fund \$ 30,000

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

D. On-Behalf Of Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2009, the Town of China Grove has recognized on-behalf of payments for pension contributions made by the State as revenue and an expenditure of \$10,883 for the 16 volunteer firemen and the 24 employed firemen who perform firefighting duties for the Town's fire department. The volunteers elected to be members of the Firemen and Rescue Squad Worker's Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

IV. Joint Venture

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the Town's fire department by the board of trustees. During the fiscal year ended June 30, 2009, the Town did not report any revenues and expenditures for these payments because no benefit payments were made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2009. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

V. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from 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.

Town of China Grove, North Carolina
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/03	-	\$ 49,156	\$ 49,156	0%	\$ 292,565	16.80%
12/31/04	-	23,478	23,478	0%	243,835	9.63%
12/31/05	-	32,282	32,282	0%	305,079	10.58%
12/31/06	-	29,960	29,960	0%	298,605	10.03%
12/31/07	-	42,578	42,578	0%	339,314	12.55%
12/31/08	-	48,574	48,574	0%	356,714	13.62%

Town of China Grove, North Carolina
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2004	N/A	0.0%
2005	\$ 7,243	0.0%
2006	4,397	0.0%
2007	5,425	0.0%
2008	4,958	0.0%
2009	6,497	0.0%

Notes to the Required Schedules:

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

Valuation date	12/31/2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	22 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5% - 12.3%
Includes inflation at	3.75%
Cost-of living adjustments	None

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2009

	Budget	Actual	Variance Positive (Negative)
Revenues			
Ad valorem taxes			
Taxes	\$ 1,068,400	\$ 1,082,913	\$ 14,513
Penalties and interest	7,500	8,979	1,479
Total	<u>1,075,900</u>	<u>1,091,892</u>	<u>15,992</u>
Unrestricted intergovernmental			
Local option sales taxes	729,800	654,590	(75,210)
Telecommunications sales tax	-	55,418	55,418
Utility franchise tax	240,000	128,400	(111,600)
Piped natural gas	-	17,703	17,703
Video franchise fee	-	24,883	24,883
Cable TV franchise fee	4,200	4,362	162
Beer and wine tax	18,900	19,302	402
ABC profit distribution	-	2,431	2,431
Total	<u>992,900</u>	<u>907,089</u>	<u>(85,811)</u>
Restricted intergovernmental			
Powell Bill allocation	135,000	129,896	(5,104)
Controlled substance tax	-	587	587
Fire tax	14,000	11,945	(2,055)
Fire tax supplement	6,500	6,456	(44)
Salisbury/Rowan Schools-SRO	61,600	61,603	3
Public safety grants	18,600	17,658	(942)
On-behalf of payments - Fire	-	10,883	10,883
Solid waste disposal	-	2,000	2,000
Total	<u>235,700</u>	<u>241,028</u>	<u>5,328</u>
Permits and fees			
Police fines and citations	5,000	7,044	2,044
Zoning and development fees	3,000	3,046	46
Community building rent	9,500	10,385	885
Trash can fees	4,300	6,029	1,729
Total	<u>21,800</u>	<u>26,504</u>	<u>4,704</u>
Investment earnings	<u>30,000</u>	<u>30,358</u>	<u>358</u>
Miscellaneous			
Collection fees - Duke Power	20,000	11,198	(8,802)
Other	3,000	39,009	36,009
Total	<u>23,000</u>	<u>50,207</u>	<u>27,207</u>
Total revenues	<u>\$ 2,379,300</u>	<u>\$ 2,347,078</u>	<u>\$ (32,222)</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2009

	Budget	Actual	Variance Positive (Negative)
Expenditures			
General government			
Governing body			
Salaries and wages	\$ 6,720	\$ 6,720	\$ -
Payroll tax	520	514	6
Materials and supplies	200	-	200
Travel and schools	-	52	(52)
Advertising	225	-	225
Membership and dues	7,000	6,545	455
Miscellaneous	-	178	(178)
Community appearance	12,500	4,373	8,127
Farmers' Day	5,500	5,772	(272)
Grant match bus service	7,500	7,500	-
Donations	3,500	5,425	(1,925)
	<u>43,665</u>	<u>37,079</u>	<u>6,586</u>
Administration			
Salaries and wages	189,000	195,653	(6,653)
Salaries and wages-overtime	-	151	(151)
Salaries and wages-part- time	17,000	-	17,000
Payroll tax	14,500	14,829	(329)
Employee benefits	36,000	34,325	1,675
Workers compensation	1,050	892	158
Professional fees-accounting	20,500	17,500	3,000
Professional fees-legal	4,800	11,439	(6,639)
Office supplies	7,000	3,498	3,502
Materials and supplies	3,000	1,233	1,767
Contracted services	21,000	20,885	115
Technical support	10,000	9,105	895
Travel and schools	10,000	5,228	4,772
Telephone and postage	14,000	7,715	6,285
Utilities	8,000	6,110	1,890
Repair and maintenance	-	3,768	(3,768)
Advertising	250	194	56
Memberships and dues	2,500	358	2,142
Miscellaneous	3,500	3,107	393
Leases and maintenance	6,000	5,825	175
Insurance	6,350	5,778	572
Rowan County tax services	20,000	21,096	(1,096)
	<u>394,450</u>	<u>368,689</u>	<u>25,761</u>
Total general government	<u>\$ 438,115</u>	<u>\$ 405,768</u>	<u>\$ 32,347</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2009

	Budget	Actual	Variance Positive (Negative)
Public safety			
Police department			
Salaries and wages	\$ 317,200	\$ 318,811	\$ (1,611)
School resource officers	57,700	57,921	(221)
Salaries and wages-overtime	5,000	3,692	1,308
Salaries and wages-part-time	10,800	8,232	2,568
Payroll tax	29,500	29,215	285
Employee benefits	87,000	81,766	5,234
Workers compensation	17,200	15,267	1,933
Materials and supplies	5,000	2,638	2,362
Fuel and oil	35,000	30,592	4,408
Uniforms	4,500	3,530	970
Weapons	4,000	3,612	388
Contract services	4,500	4,395	105
Technical support	5,500	5,626	(126)
Travel and schools	1,000	190	810
Telephone and postage	5,800	6,073	(273)
Cell phones and pagers	11,500	9,110	2,390
Utilities	6,000	6,697	(697)
Repairs and maintenance	28,000	25,970	2,030
Repairs and maintenance-building	-	3,668	(3,668)
Memberships & dues	250	-	250
Miscellaneous	5,000	481	4,519
Insurance	11,500	12,032	(532)
Capital outlay	70,000	59,309	10,691
	<u>721,950</u>	<u>688,827</u>	<u>33,123</u>
Total police department	\$ 721,950	\$ 688,827	\$ 33,123

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2009

	Budget	Actual	Variance Positive (Negative)
Fire department			
Salaries and wages-regular	\$ 69,700	\$ 66,157	\$ 3,543
Salaries and wages-overtime	-	302	(302)
Salaries and wages-part time	50,000	53,207	(3,207)
Salaries and wages-per call	8,000	4,938	3,062
Payroll tax	9,800	9,545	255
Employee benefits	14,500	12,104	2,396
Workers compensation	8,000	8,158	(158)
Food and provisions	400	-	400
Medical supplies	1,000	783	217
Material and supplies	5,000	5,093	(93)
Fuel and oil	10,500	6,795	3,705
Uniforms	3,000	2,937	63
Turn out gear	9,000	8,979	21
Contracted services	-	64	(64)
Travel and schools	2,000	1,179	821
Telephone and postage	1,400	1,433	(33)
Cell phones & pagers	9,000	4,612	4,388
Utilities	6,500	6,697	(197)
Repairs and maintenance	22,500	24,062	(1,562)
Repairs and maintenance-building	-	925	(925)
Memberships and dues	500	792	(292)
Miscellaneous	1,000	2,057	(1,057)
Insurance	8,500	7,878	622
Fire pension fund	1,500	1,360	140
Fire on-behalf of payments	-	10,883	(10,883)
Capital outlay	150,000	-	150,000
	<u>391,800</u>	<u>240,940</u>	<u>150,860</u>
Total fire department			
	<u>391,800</u>	<u>240,940</u>	<u>150,860</u>
Total public safety	<u>1,113,750</u>	<u>929,767</u>	<u>183,983</u>
Transportation			
Streets and highways			
Professional fees-engineer	75,000	81,631	(6,631)
Professional fees	2,000	-	2,000
Repairs and maintenance	15,000	4,193	10,807
Drainage	2,500	772	1,728
Miscellaneous	500	115	385
Paving	18,000	26,102	(8,102)
Right of way	2,000	723	1,277
Reserve for sidewalks	20,000	-	20,000
	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total transportation	<u>\$ 135,000</u>	<u>\$ 113,536</u>	<u>\$ 21,464</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2009

	Budget	Actual	Variance Positive (Negative)
Environmental protection			
Public works			
Employee wages-regular	\$ 201,600	\$ 179,417	\$ 22,183
Employee wages-overtime	2,300	1,513	787
Payroll taxes	15,600	13,958	1,642
Employee benefits	50,000	43,673	6,327
Workers compensation	16,700	14,343	2,357
Materials and supplies	10,000	11,235	(1,235)
Fuel and oil	15,000	13,279	1,721
Uniforms	1,500	1,280	220
Safety equipment and materials	1,000	118	882
Contracted services	-	144	(144)
Travel and schools	500	-	500
Telephone and postage	2,500	1,723	777
Cell phones & pagers	1,500	1,703	(203)
Utilities	2,500	2,745	(245)
Street lights	35,000	38,450	(3,450)
Repairs and maintenance	17,500	17,603	(103)
Repairs and maintenance-buildings	1,000	700	300
Memberships and dues	100	35	65
Miscellaneous	3,000	2,960	40
Insurance	6,000	7,152	(1,152)
Garbage and recycling contract	195,000	209,000	(14,000)
Landfill charges	2,500	3,363	(863)
Debt principal	24,250	-	24,250
Debt interest	2,400	-	2,400
Capital outlay	75,000	-	75,000
	<u>682,450</u>	<u>564,394</u>	<u>118,056</u>
 Total environmental protection			
 Economic and physical development			
Planning			
Professional fees - planner	60,000	53,076	6,924
Material and supplies	2,000	19	1,981
Contracted services	2,000	2,133	(133)
Travel and schools	250	-	250
Telephone and postage	100	203	(103)
Repairs and maintenance	-	94	(94)
Advertising	1,500	1,140	360
Tourism and economic development	2,500	2,500	-
	<u>68,350</u>	<u>59,165</u>	<u>9,185</u>
 Total economic and physical development	<u>\$ 68,350</u>	<u>\$ 59,165</u>	<u>\$ 9,185</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Cultural and recreational			
Recreation			
Contracted services	\$ 25,000	\$ 31,786	\$ (6,786)
Christmas activities	3,500	2,951	549
Community building expenses	15,000	11,439	3,561
Telephone and postage	-	5	(5)
Utilities	6,000	6,664	(664)
Miscellaneous	2,000	40	1,960
Insurance	3,200	2,646	554
Playground expense	20,000	18,517	1,483
Little League	2,000	1,499	501
Capital outlay	9,000	-	9,000
	<u>85,700</u>	<u>75,547</u>	<u>10,153</u>
Total cultural and recreational			
Debt service			
Principal retirement	75,560	75,505	55
Interest	3,400	3,344	56
	<u>78,960</u>	<u>78,849</u>	<u>111</u>
Total debt service			
Total expenditures	<u>2,602,325</u>	<u>2,227,026</u>	<u>375,299</u>
Revenues over (under) expenditures	<u>(223,025)</u>	<u>120,052</u>	<u>343,077</u>
Other financing sources (uses)			
Transfer to capital reserve	(30,000)	(30,000)	-
Transfer from capital reserve fund	180,000	-	(180,000)
Proceeds from borrowing	75,000	-	(75,000)
Contingency	(1,975)	-	1,975
	<u>223,025</u>	<u>(30,000)</u>	<u>(253,025)</u>
Total other financing sources (uses)			
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>90,052</u>	<u>\$ 90,052</u>
Fund balances			
Fund balance, beginning		<u>2,083,100</u>	
Fund balance, end		<u>\$ 2,173,152</u>	

TOWN OF CHINA GROVE, NORTH CAROLINA
 CAPITAL RESERVE FUND
 STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
 From Inception and For the Year Ended June 30, 2009

	Budget	Prior Years	Actual		Variance Positive (Negative)
			Current Year	Total to Date	
Revenues					
Interest	\$ -	\$ 15,438	\$ 2,869	\$ 18,307	\$ 18,307
Total revenues	-	15,438	2,869	18,307	18,307
Other financing sources (uses)					
Transfer from General Fund	180,000	150,000	30,000	180,000	-
Transfer to General Fund	(180,000)	-	-	-	180,000
Total other financing sources (uses)	-	150,000	30,000	180,000	180,000
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 165,438	\$ 32,869	\$ 198,307	\$ 198,307

TOWN OF CHINA GROVE, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Charges for services:			
Water sales	\$ 888,400	\$ 877,505	\$ (10,895)
Sewer sales	798,650	803,385	4,735
Reconnection fees-water	2,800	4,030	1,230
Reconnection fees-sewer	2,800	-	(2,800)
Late charges	23,000	29,592	6,592
	<u>1,715,650</u>	<u>1,714,512</u>	<u>(1,138)</u>
Water and sewer taps	<u>6,900</u>	<u>13,750</u>	<u>6,850</u>
Other operating revenues:			
Bad check fees	1,000	1,075	75
Miscellaneous	1,500	18,431	16,931
Bad debt recovery	-	234	234
	<u>2,500</u>	<u>19,740</u>	<u>17,240</u>
Total operating revenues	<u>1,725,050</u>	<u>1,748,002</u>	<u>22,952</u>
Nonoperating revenues:			
Investment earnings	<u>20,000</u>	<u>13,712</u>	<u>(6,288)</u>
Total nonoperating revenues	<u>20,000</u>	<u>13,712</u>	<u>(6,288)</u>
Total revenues	<u>\$ 1,745,050</u>	<u>\$ 1,761,714</u>	<u>\$ 16,664</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Water distribution:			
Salaries and wages-regular	\$ 106,700	\$ 110,890	\$ (4,190)
Salaries and wages-overtime	900	1,003	(103)
Payroll taxes	8,300	8,181	119
Employee benefits	21,500	21,625	(125)
Workers compensation insurance	5,100	4,997	103
Professional fees-engineer	-	3,176	(3,176)
Office supplies	1,500	851	649
Materials and supplies	30,000	26,571	3,429
Fuel and oil	5,000	3,121	1,879
Uniforms	625	500	125
Contract services	2,000	600	1,400
Technical support	1,200	1,320	(120)
Travel and schools	2,000	200	1,800
Telephone and postage	6,000	4,681	1,319
Cell phones and pagers	2,550	1,745	805
Utilities	16,000	14,174	1,826
Repairs and maintenance	15,000	30,107	(15,107)
Water purchase (Salisbury)	465,475	455,085	10,390
Memberships & dues	1,000	295	705
Miscellaneous	1,500	503	997
Permits and licenses	1,500	3,430	(1,930)
Water testing	7,000	8,312	(1,312)
Tank maintenance	18,900	19,326	(426)
Insurance	6,750	6,297	453
	<u>6,750</u>	<u>6,297</u>	<u>453</u>
Total water distribution	<u>\$ 726,500</u>	<u>\$ 726,990</u>	<u>\$ (490)</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2009

	Budget	Actual	Variance Positive (Negative)
Sewer collection:			
Professional fees-engineer	\$ -	\$ 4,000	\$ (4,000)
Office supplies	500	446	54
Materials and supplies	10,000	16,512	(6,512)
Fuel and oil	5,000	3,121	1,879
Uniforms	750	668	82
Travel and schools	1,500	-	1,500
Telephone and postage	4,200	3,827	373
Utilities	10,000	10,664	(664)
Repairs and maintenance	20,000	7,414	12,586
Sewer treatment charges	567,800	566,344	1,456
Memberships and dues	-	150	(150)
Miscellaneous	1,000	497	503
Permits and licenses	200	-	200
Equipment rental	2,000	-	2,000
Insurance	6,000	5,186	814
	<u>628,950</u>	<u>618,829</u>	<u>10,121</u>
Total sewer collection			
Debt service:			
Principal retirement	475,400	475,396	4
Interest expense	144,200	144,107	93
	<u>619,600</u>	<u>619,503</u>	<u>97</u>
Total debt service			
	<u>1,975,050</u>	<u>1,965,322</u>	<u>9,728</u>
Total expenditures			
Revenues over expenditures	\$ (230,000)	\$ (203,608)	\$ 26,392

TOWN OF CHINA GROVE, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2009

	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):			
Fund balance appropriated	\$ 230,000	\$ -	\$ (230,000)
Total other financing sources (uses)	230,000	-	(230,000)
Revenues and other sources over expenditures and other uses	\$ -	(203,608)	\$ (203,608)
Reconciliation from budgetary basis (modified accrual) to full accrual			
Revenues over (under) expenditures		(203,608)	
Reconciling items			
Principal retirement		475,396	
Increase (decrease) in accrued interest expense		2,294	
Decrease in accrued compensated absences		1,736	
Depreciation		(312,974)	
Amortization of water line rights		(88,920)	
Total reconciling items		77,532	
Change in net assets		\$ (126,076)	

TOWN OF CHINA GROVE, NORTH CAROLINA
CDBG INFRASTRUCTURE PROJECT
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
From Inception and For the Year Ended June 30, 2009

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues					
Restricted intergovernmental					
CDBG grant	\$ 750,000	\$ 750,000	\$ -	\$ 750,000	\$ -
Utility fund capital project reserves	<u>614,440</u>	<u>380,859</u>	<u>220,067</u>	<u>600,926</u>	<u>(13,514)</u>
Total revenues	<u>1,364,440</u>	<u>1,130,859</u>	<u>220,067</u>	<u>1,350,926</u>	<u>(13,514)</u>
Expenditures					
Sewer improvements	880,000	758,479	161,307	919,786	(39,786)
Water improvements	320,000	269,495	16,996	286,491	33,509
Professional fees	112,000	90,591	1,325	91,916	20,084
Administration	<u>52,440</u>	<u>46,918</u>	<u>5,815</u>	<u>52,733</u>	<u>(293)</u>
Total expenditures	<u>1,364,440</u>	<u>1,165,483</u>	<u>185,443</u>	<u>1,350,926</u>	<u>13,514</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (34,624)</u>	<u>\$ 34,624</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2009

Fiscal Year	Uncollected Balance June 30, 2008	Additions	Collections and Credits	Uncollected Balance June 30, 2009
2008-2009	\$ -	\$ 1,098,457	\$ 1,064,923	\$ 33,534
2007-2008	26,680	-	18,604	8,076
2006-2007	6,772	-	1,817	4,955
2005-2006	5,418	-	1,849	3,569
2004-2005	3,628	-	1,099	2,529
2003-2004	2,792	-	714	2,078
2002-2003	2,557	-	564	1,993
2001-2002	2,189	-	439	1,750
2000-2001	1,812	-	372	1,440
1999-2000	1,686	-	275	1,411
1998-1999	1,107	-	1,107	-
	<u>\$ 54,641</u>	<u>\$ 1,098,457</u>	<u>\$ 1,091,763</u>	61,335
Less allowance for uncollectible accounts:				
General Fund				<u>9,714</u>
Ad valorem taxes receivable-net				<u>51,621</u>
Reconcilement with revenues:				
Ad valorem taxes - General Fund				1,091,891
Reconciling items				
Interest collected				(8,979)
Discounts allowed				6,858
Taxes written off				<u>1,993</u>
Total collections and credits				<u>\$ 1,091,763</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Year Ended June 30, 2009

	Town-wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$288,689,176	\$.38	\$1,097,019	\$1,004,697	\$ 92,322
Penalties	-		486	486	-
Total	<u>288,689,176</u>		<u>1,097,505</u>	<u>1,005,183</u>	<u>92,322</u>
Discoveries					
Current year taxes	645,920	.38	2,478	2,248	230
Total	<u>645,920</u>		<u>2,478</u>	<u>2,248</u>	<u>230</u>
Abatements	(399,216)		(1,526)	(377)	(1,149)
Total property valuation	<u>\$288,935,880</u>				
Net levy			1,098,457	1,007,054	91,403
Uncollected taxes at June 30, 2009			(33,534)	(22,735)	(10,799)
Current year's taxes collected			<u>\$1,064,923</u>	<u>\$ 984,319</u>	<u>\$ 80,604</u>
Current levy collection percentage			<u>96.95%</u>	<u>97.74%</u>	<u>88.19%</u>

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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

The Honorable Mayor and
Town Council
Town of China Grove, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of China Grove, North Carolina, as of and for the year ended June 30, 2009, which collectively comprises the Town of China Grove's basic financial statements, and have issued our report thereon dated October 30, 2009. 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 Town of China Grove's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of China Grove's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the following to be significant deficiencies in internal control over financial reporting.

Provide Oversight of the Preparation of Financial Statements

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP). The Town does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of these services is not unusual in entities of your size and is a result of management's cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost.

Monitoring Service Provider

The Town has chosen Rowan County to provide significant services in preparing the tax scroll, creating the tax levy and tax bills, collection of taxes, and preparation of the detailed underlying accounting for this process. Monitoring is a process that assesses whether the controls used by the service provider are operating as intended, controls at the Town are modified as appropriate for changed conditions, monthly reports received are reviewed and reconciled, and that information recorded in the Town's accounting system reflects the activity that transpires. Because limited monitoring activities now occur, the Town should develop a monitoring plan to accomplish the above objective.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of China Grove'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 test 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, the governing 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.

Sherrill & Smith, CPAs, PA

October 30, 2009