

**Financial Statements for the
Town of China Grove in
North Carolina**

**For the Fiscal Year Ended
June 30, 2011**

Town Council Members:

Don Bringle, Mayor
Lee Withers, Mayor Pro Tem
Brandon Linn
Ron Overcash
Charles Seaford
Mike Upright

Administrative and Financial Staff:

Ken Deal, Town Manager
Mary Jo Bopp, Finance Officer
Amanda A. Eller, Town Clerk

Town of China Grove, North Carolina

Table of Contents

June 30, 2011

<u>Exhibit</u>		<u>Page</u>
	FINANCIAL SECTION:	
	Independent Auditor's Report	1-2
	Management's Discussion and Analysis	3-13
	Basic Financial Statements:	
	Government-Wide Financial Statements:	
1	Statement of Net Assets	14
2	Statement of Activities	15
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	16
4	Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17-18
5	Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	19
6	Statement of Net Assets – Proprietary Funds	20
7	Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	21
8	Statement of Cash Flows – Proprietary Funds	22-23
	Notes to the Financial Statements	24-43
	Required Supplemental Financial Data:	
	Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress	44
	Law Enforcement Officers' Special Separation Allowance – Schedule of Employer Contributions	45
	Law Enforcement Officers' Special Separation Allowance – Notes to the Required Schedules	45

Town of China Grove, North Carolina

Table of Contents

June 30, 2011

	<u>Page</u>
Individual Fund Statements and Schedules:	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	46-51
Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Capital Reserve Fund	52
Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Town Hall/Fire Department Capital Project Fund	53
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Utility Fund	54-57
Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Altec Sewer Project	58
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable – General Fund	59
Analysis of Current Tax Levy	60
Compliance Section:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Governmental Auditing Standards</u>	61-62
Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance and in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act	63-64
Schedule of Expenditures of Federal and State Awards	65-66
Schedule of Findings and Questioned Costs	67-68
Corrective Action Plan	69
Summary Schedule of Prior Audit Findings	70

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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, 2011, 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 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, 2011, and the respective changes in financial position and cash flows, where applicable, 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 November 2, 2011 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 grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and on the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 Employer Contributions on pages 3 through 13 and 44 and 45 respectively, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit 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 Town of China Grove, North Carolina's basic financial statements. The introductory information, combining and individual fund financial statements, budgetary schedules, and other schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and State awards is presented as for purposes of additional analysis are required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act, and are also not a required part of the basic financial statements of the Town of China Grove, North Carolina. The combining and individual fund financial statements, budgetary schedules, and other schedules, and the schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information has not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we express no opinion on them.

Sherrill & Smith, CPAs, PA

November 2, 2011

Management's Discussion and Analysis

We have compiled the Town of China Grove's financial statements in a narrative overview and analysis of the financial activities of the Town of China Grove for the fiscal year ended June 30, 2011. We encourage you 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

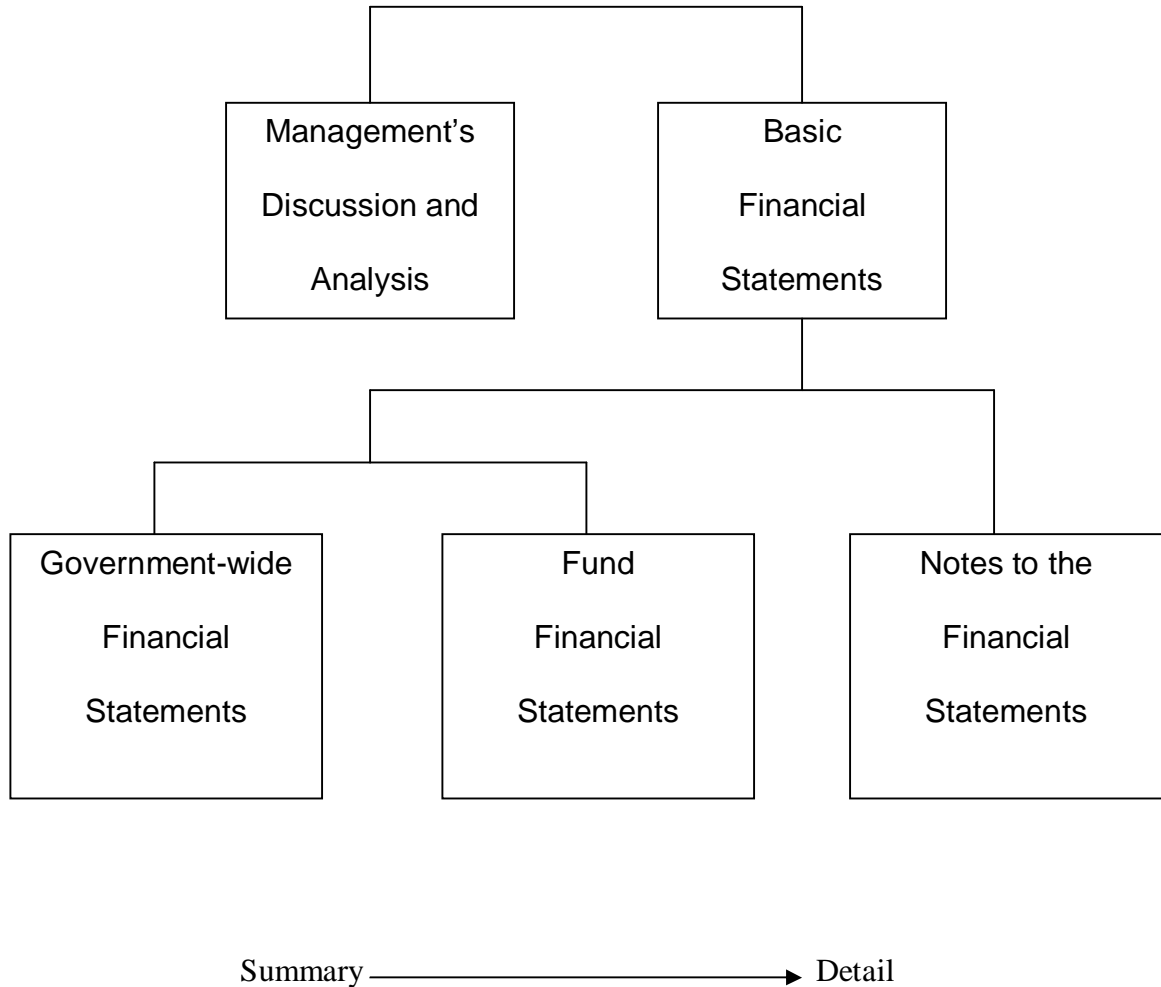
- The assets of the Town *exceeded* its liabilities at the close of the fiscal year by \$8,668,568 (*net assets*).
- The government's total net assets increased by \$ 655,078.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$ 3,601,580 an increase of \$1,624,564 in comparison with the prior year. This increase is due to loan proceeds restricted for the Fire Dept/Town Hall Renovation Project. Approximately 34% of this total amount or \$ 1,241,076 is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 1,241,076 or 44% of total general fund expenditures for the fiscal year.
- The Town's total debt increased \$ 1,421,730 during the current fiscal year. The key factor in this increase was the loan for the Fire Dept/Town Hall Renovation Project.
- This Fiscal year 2010-2011, the Town did raise utility rates and continued with a Debt Service Fee and the revenues increased.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town'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 you 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 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 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 you a detailed short-term view that helps you 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 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 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 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 43 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's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 44 of this report.

Government-Wide Financial Analysis

The Town of China Grove's Net Assets

Figure 2

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 3,845,540	\$ 2,271,989	\$ 410,571	\$ 251,383	\$ 4,256,111	\$ 2,523,372
Capital assets	1,572,570	1,090,944	9,390,800	9,571,969	10,963,370	10,662,913
Total assets	5,418,110	3,362,933	9,801,371	9,823,352	15,219,481	13,186,285
Long-term liabilities outstanding	2,008,528	105,499	4,167,045	4,654,684	6,175,573	4,760,183
Other liabilities	173,060	210,117	202,280	288,853	375,340	498,970
Total liabilities	2,181,588	315,616	4,369,325	4,943,537	6,550,913	5,259,153
Net assets:						
Invested in capital assets, net of related debt	1,475,178	1,090,944	5,223,754	4,929,527	6,698,932	6,020,471
Restricted for:						
Stabilization by State Statute	448,914	785,875	-	-	448,914	785,875
Other functions	189,076	180,318	-	-	189,076	180,318
Unrestricted	1,123,354	990,180	208,292	36,646	1,331,646	1,026,826
Total net assets	\$ 3,236,522	\$ 3,047,317	\$ 5,432,046	\$ 4,966,173	\$ 8,668,568	\$ 8,013,490

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town exceeded liabilities by \$8,668,568 as of June 30, 2011. The town's net assets increased by \$655,078 for the fiscal year ended June 30, 2011. However, the largest portion (77%) 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 uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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's net assets (7.36%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,331,646 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	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 22,606	\$ 22,290	\$ 2,032,030	\$ 1,882,716	\$ 2,054,636	\$ 1,905,006
Operating grants and contributions	272,800	242,991	-	-	272,800	242,991
Capital grants and contributions	340,511	198,255	247,741	20,208	588,252	218,463
General revenues:						
Property taxes	1,201,611	1,072,082	-	-	1,201,611	1,072,082
Grants and contributions not restricted to specific programs	888,128	842,933	-	-	888,128	842,933
Other	10,935	13,624	287	1,387	11,222	15,011
Total revenues	2,736,591	2,392,175	2,280,058	1,904,311	5,016,649	4,296,486
Expenses:						
General government	430,521	420,010	-	-	430,521	420,010
Public safety	1,239,857	1,055,229	-	-	1,239,857	1,055,229
Transportation	95,742	180,616	-	-	95,742	180,616
Environmental protection	596,708	611,018	-	-	596,708	611,018
Economic and physical development	106,862	54,833	-	-	106,862	54,833
Cultural and recreation	74,357	71,813	-	-	74,357	71,813
Interest on long-term debt	3,339	459	-	-	3,339	459
Water and sewer	-	-	1,814,185	1,988,266	1,814,185	1,988,266
Total expenses	2,547,386	2,393,978	1,814,185	1,988,266	4,361,571	4,382,244
Increase in net assets	189,205	(1,803)	465,873	2,403	655,078	600
Net assets, July 1	3,047,317	3,049,120	4,966,173	4,963,770	8,013,490	8,012,890
Net assets, June 30	\$ 3,236,522	\$ 3,047,317	\$ 5,432,046	\$ 4,966,173	\$ 8,668,568	\$ 8,013,490

Management Discussion and Analysis
Town of China Grove

Governmental activities. Governmental activities increased the town's net assets by \$189,205. Key elements of this increase are as follows:

- Grant revenue from the CMAQ sidewalk project.
- Small increase in Sales Tax Revenue and Utility Tax Revenue.

Business-type activities: Business-type activities increased the Town of China Grove's net assets by \$ 465,873. The key elements of this increase are as follows:

- Increase in Utility Fund Revenue.
- Decrease in sewer charges from SRU.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town'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, unassigned fund balance of the General Fund was \$ 1,241,076 while total fund balance reached \$ 1,962,156. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 44.34 % of total General Fund expenditures, while total fund balance represents 70.09 % of that same amount.

At June 30, 2011, the governmental funds of the Town reported a combined fund balance of \$3,601,580 a 82.17% increase over last year. This is the result of a net change in fund balance of \$1,624,546.

General Fund Budgetary Highlights: During the fiscal year, the Town 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 Fire department from the previous year, due to an unexpected repair to Engine #432. The Police department expenditures increased due to the renovations required to renovate the old Town Hall facility. The additional revenue came from an increase in Ad Valorem Taxes, Sales Tax and Utility Franchise Taxes. Staff recognizes that these shifts in priorities and needs occur each year, and that the budget ultimately serves as a guide to what is expected during the upcoming twelve months.

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 \$ 208,292. 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's investment in capital assets for its governmental and business-type activities as of June 30, 2011, totals \$ 10,963,370 (net of accumulated depreciation). These assets include buildings, roads and other infrastructure, land, machinery and equipment, and vehicles.

The Town did not purchase many capital items during the fiscal year. The Town did renovate the old Town Hall facility to accommodate the Police department and purchase laptops for all of the patrol officers. The Town also completed the CMAQ Sidewalk Project and completed a Sewer line to Altec this year. All of these expenditures were allocated in the budget.

Management Discussion and Analysis
Town of China Grove

Town of China Grove's Capital Assets

Figure 4

	Governmental		(net of depreciation)		Total	
	Activities		Business-type			
	2011	2010	2011	2010	2011	2010
Land	\$ 50,912	\$ 50,912	\$ -	\$ -	\$ 50,912	\$ 50,912
Construction in progress	224,860	-	-	41,200	224,860	41,200
Buildings and system	207,527	217,986	-	-	207,527	217,986
Improvements other than buildings	73,688	79,429	-	-	73,688	79,429
Machinery and equipment	454,214	544,362	-	-	454,214	544,362
Infrastructure	561,369	198,255	9,338,173	9,462,692	9,899,542	9,660,947
Vehicles and motorized equipment	-	-	52,627	68,077	52,627	68,077
Total	\$ 1,572,570	\$ 1,090,944	\$ 9,390,800	\$ 9,571,969	\$ 10,963,370	\$ 10,662,913

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, 2011, the Town had no bonded debt.

The Town's total debt increased \$1,421,730 during the past fiscal year. The increase in long term debt is due to the fact that the Town of China Grove incurred debt for the Fire Dept/Town Hall renovations. The Town has made all scheduled debt service payments for the year.

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 \$ 16,385,098. The town has \$ 0 in bonds authorized but un-issued at June 30, 2011.

Additional information regarding the Town'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.

- Rowan County's unemployment rate is 11.5% which is higher than the States unemployment rate of 9.9%. Rowan County has not rebounded as quickly from the recession.
- 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 not seen new office and retail space constructed within the past twelve months.
- 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 several other buildings.

Budget Highlights for the Fiscal Year Ending June 30, 2012

Governmental Activities: Operating revenues in the General Fund have remained fairly consistent over the past several years. The tax rate will increase to \$.47 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 \$1,198,900. This is 55% 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 \$842,000 or 39% of the total General Fund Revenues. Combined, these three revenue sources account for approximately 94% of the General Fund Revenues.

This coming years General Fund budget is approximately \$54,200 more 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 maintaining a low tax rate. This Budget will see limited capital outlay for this fiscal year.

Business – type Activities: The Town has turned over the Operations of the Utility System to Salisbury Rowan Utilities. The Residents of the Town will see a reduction in their Utility Rates for the next seven (7) years due to this agreement.

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:

Mary Jo Bopp
Town of China Grove
Finance Officer
205 Swink Street
China Grove, NC 28023
mbopp@chinagrovec.gov

Phone (704) 857-2466
Fax (704) 855-1855

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2011

Exhibit 1

Assets	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and cash equivalents	\$ 1,517,028	\$ 156,332	\$ 1,673,360
Taxes receivable (net)	58,340	-	58,340
Accrued interest receivable on taxes	13,770	-	13,770
Accounts receivable (net)	1,817	194,785	196,602
Other current assets	11,403	-	11,403
Due from other governments	312,980	-	312,980
Internal balances	9,446	(9,446)	-
Restricted cash and cash equivalents	1,920,756	68,900	1,989,656
Total current assets	<u>3,845,540</u>	<u>410,571</u>	<u>4,256,111</u>
Capital assets:			
Land, non-depreciable improvements, and construction in progress	275,772	-	275,772
Other capital assets, net of depreciation	1,296,798	9,301,880	10,598,678
Water line rights, net of amortization	-	88,920	88,920
Total capital assets	<u>1,572,570</u>	<u>9,390,800</u>	<u>10,963,370</u>
Total assets	<u>5,418,110</u>	<u>9,801,371</u>	<u>15,219,481</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	171,779	116,901	288,680
Accrued interest payable	1,210	16,479	17,689
Unearned revenue	71	-	71
Customer deposits	-	68,900	68,900
Current portion of long-term liabilities	40,782	475,396	516,178
Long-term liabilities:			
Due in more than one year	<u>1,967,746</u>	<u>3,691,649</u>	<u>5,659,395</u>
Total liabilities	<u>2,181,588</u>	<u>4,369,325</u>	<u>6,550,913</u>
Net Assets			
Invested in capital assets, net of related debt	1,475,178	5,223,754	6,698,932
Restricted for:			
Stabilization by State Statute	448,914	-	448,914
Other functions	189,076	-	189,076
Unrestricted	<u>1,123,354</u>	<u>208,292</u>	<u>1,331,646</u>
Total net assets	<u>\$ 3,236,522</u>	<u>\$ 5,432,046</u>	<u>\$ 8,668,568</u>

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

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

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	\$ 430,521	\$ -	\$ -	\$ -	\$ (430,521)	\$ -	\$ (430,521)
Public Safety	1,239,857	6,869	100,046	-	(1,132,942)	-	(1,132,942)
Transportation	95,742	-	116,924	340,511	361,693	-	361,693
Environmental protection	596,708	5,272	2,980	-	(588,456)	-	(588,456)
Economic and physical development	106,862	2,315	52,850	-	(51,697)	-	(51,697)
Cultural and recreation	74,357	8,150	-	-	(66,207)	-	(66,207)
Interest on long-term debt	3,339	-	-	-	(3,339)	-	(3,339)
Total governmental activities (See Note 1)	2,547,386	22,606	272,800	340,511	(1,911,469)	-	(1,911,469)
Business-type activities:							
Water and sewer	1,814,185	2,032,030	-	247,741	-	465,586	465,586
Total business-type activities	1,814,185	2,032,030	-	247,741	-	465,586	465,586
Total primary government	\$ 4,361,571	\$ 2,054,636	\$ 272,800	\$ 588,252	(1,911,469)	465,586	(1,445,883)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					1,201,611	-	1,201,611
Grants and contributions not restricted to specific programs					888,128	-	888,128
Unrestricted investment earnings					5,078	287	5,365
Miscellaneous					5,857	-	5,857
Total general revenues and transfers					2,100,674	287	2,100,961
Change in net assets					189,205	465,873	655,078
Net assets, beginning					3,047,317	4,966,173	8,013,490
Net assets, ending					\$ 3,236,522	\$ 5,432,046	\$ 8,668,568

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, 2011

Exhibit 3

	General Fund	Capital Reserve Fund	Town Hall/ Fire Department Capital Project Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,508,018	\$ 9,010	\$ -	\$ 1,517,028
Restricted cash	118,939	-	1,801,817	1,920,756
Taxes receivable (net)	58,340	-	-	58,340
Account receivable (net)	1,817	-	-	1,817
Other current assets	11,403	-	-	11,403
Due from other governments	312,980	-	-	312,980
Due from other funds	122,713	-	(113,267)	9,446
Total assets	2,134,210	9,010	1,688,550	3,831,770
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	113,643	-	58,136	171,779
Deferred revenue	58,340	-	-	58,340
Unearned revenue	71	-	-	71
Total liabilities	172,054	-	58,136	230,190
Fund balances:				
Restricted				
Stabilization by State statute	448,914	-	-	448,914
Streets	122,251	-	-	122,251
Town Hall/Fire Department Capital Project	-	-	1,630,414	1,630,414
Adequate Public Facilities Ordinance-Police	8,090	-	-	8,090
Adequate Public Facilities Ordinance-Fire	33,545	-	-	33,545
Adequate Public Facilities Ordinance-Parks	16,180	-	-	16,180
Capital Reserve	-	9,010	-	9,010
Assigned	-	-	-	-
Subsequent year's expenditures	92,100	-	-	92,100
Unassigned	1,241,076	-	-	1,241,076
Total fund balances	1,962,156	9,010	1,630,414	3,601,580
Total liabilities and fund balances	\$ 2,134,210	\$ 9,010	\$ 1,688,550	
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			\$ 275,772	
Gross capital assets at historical cost			3,541,584	
Accumulated depreciation			(2,244,786)	1,572,570
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.				13,770
Liabilities for earned but deferred revenues in fund statements.				58,340
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.				(2,009,738)
Net assets of governmental activities				\$ 3,236,522

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

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

Exhibit 4

	General Fund	Capital Reserve Fund	Town Hall/ Fire Department Capital Project Fund	Total Governmental Funds
Revenues				
Ad valorem taxes	\$ 1,214,337	\$ -	\$ -	\$ 1,214,337
Unrestricted intergovernmental	888,128	-	-	888,128
Restricted intergovernmental	613,312	-	-	613,312
Permits and fees	22,606	-	-	22,606
Investment earnings	4,517	11	549	5,077
Miscellaneous	5,859	-	-	5,859
Total Revenues	2,748,759	11	549	2,749,319
Expenditures				
Current				
General Government	466,789	-	-	466,789
Public safety	1,123,096	-	-	1,123,096
Transportation	457,836	-	-	457,836
Environmental protection	571,077	-	-	571,077
Economic and physical development	106,862	-	-	106,862
Cultural and recreational	69,250	-	-	69,250
Debt Service				
Principal retirement	2,084	-	-	2,084
Interest	2,129	-	-	2,129
Capital outlay	-	-	224,860	224,860
Total expenditures	2,799,123	-	224,860	3,023,983
Excess (deficiency) of revenues over expenditures	(50,364)	11	(224,311)	(274,664)
Other financing sources (uses):				
Proceeds from borrowing	44,485	-	1,854,725	1,899,210
Total other financing sources (uses)	44,485	-	1,854,725	1,899,210
Net change in fund balance	(5,879)	11	1,630,414	1,624,546
Fund balances, beginning	1,968,035	8,999	-	1,977,034
Fund balance, end	\$ 1,962,156	\$ 9,010	\$ 1,630,414	\$ 3,601,580

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

Exhibit 4

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

Net changes in fund balances - total governmental funds \$ 1,624,546

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	\$ 638,269	
Depreciation expense for government assets	<u>(156,643)</u>	481,626

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 (12,726)

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.

(1,897,126)

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		1,471
Accrued interest expense		(1,212)
Net pension obligation		<u>(7,374)</u>

Total changes in net assets of governmental activities \$ 189,205

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, 2011

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
Revenues				
Ad valorem taxes	\$ 1,179,300	\$ 1,218,300	\$ 1,214,337	\$ (3,963)
Unrestricted intergovernmental	828,300	870,300	888,128	17,828
Restricted intergovernmental	517,900	577,400	613,312	35,912
Permits and fees	19,200	19,200	22,606	3,406
Investment earnings	-	-	4,517	4,517
Miscellaneous	3,000	3,000	5,859	2,859
Total revenues	2,547,700	2,688,200	2,748,759	60,559
Expenditures				
Current				
General government	421,000	433,000	466,789	(33,789)
Public safety	1,046,600	1,108,600	1,123,096	(14,496)
Transportation	428,500	488,000	457,836	30,164
Environmental protection	592,200	592,200	571,077	21,123
Economic and physical development	47,540	54,540	106,862	(52,322)
Cultural and recreational	70,500	70,500	69,250	1,250
Debt service				
Principal retirement	-	-	2,084	(2,084)
Interest	-	-	2,129	(2,129)
Total expenditures	2,606,340	2,746,840	2,799,123	(52,283)
Revenues over (under) expenditures	(58,640)	(58,640)	(50,364)	8,276
Other financing sources (uses):				
Transfer to capital reserve	-	-	44,485	44,485
Fund balance appropriated	58,640	58,640	-	(58,640)
Total other financing sources (uses)	58,640	58,640	44,485	(14,155)
Net change in fund balance	\$ -	\$ -	(5,879)	\$ (5,879)
Fund balance, beginning			1,968,035	
Fund balance, end			\$ 1,962,156	

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

Exhibit 6

Assets	<u>Utility Fund</u>	<u>Total Proprietary Funds</u>
Current Assets:		
Cash and cash equivalents	\$ 156,332	\$ 156,332
Accounts receivable (net) - customers	191,420	191,420
Accounts receivable (net) - other	3,365	3,365
Restricted cash and cash equivalents	<u>68,900</u>	<u>68,900</u>
Total current assets	<u>420,017</u>	<u>420,017</u>
Capital Assets:		
Capital assets, net of depreciation	9,301,880	9,301,880
Water line rights, net of amortization	<u>88,920</u>	<u>88,920</u>
Total capital assets	<u>9,390,800</u>	<u>9,390,800</u>
Total Assets	<u>9,810,817</u>	<u>9,810,817</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	116,901	116,901
Accrued interest payable	16,479	16,479
Customer deposits	68,900	68,900
Installment purchase - current	475,396	475,396
Due to other funds	<u>9,446</u>	<u>9,446</u>
Current liabilities	<u>687,122</u>	<u>687,122</u>
Noncurrent Liabilities		
Long-term debt - non-current	3,691,649	3,691,649
Compensated absences - non-current	<u>-</u>	<u>-</u>
Non current liabilities	<u>3,691,649</u>	<u>3,691,649</u>
Total liabilities	<u>4,378,771</u>	<u>4,378,771</u>
Net Assets		
Invested in capital assets, net of related debt	5,223,754	5,223,754
Unrestricted	<u>208,292</u>	<u>208,292</u>
Total net assets	<u>\$ 5,432,046</u>	<u>\$ 5,432,046</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, 2011

Exhibit 7

	<u>Utility Fund</u>	<u>Total Proprietary Funds</u>
Operating revenues:		
Charges for services	\$ 2,016,238	\$ 2,016,238
Water and sewer taps	13,750	13,750
Other operating revenues	<u>2,042</u>	<u>2,042</u>
Total operating revenues	<u>2,032,030</u>	<u>2,032,030</u>
Operating expenses:		
Water distribution	721,743	721,743
Sewer collection	557,681	557,681
Depreciation	332,359	332,359
Amortization of water line rights	<u>88,920</u>	<u>88,920</u>
Total operating expenses	<u>1,700,703</u>	<u>1,700,703</u>
Operating income (loss)	<u>331,327</u>	<u>331,327</u>
Nonoperating revenues (expenses):		
Investment earnings	287	287
Interest expense	<u>(113,482)</u>	<u>(113,482)</u>
Total nonoperating revenues (expenses)	<u>(113,195)</u>	<u>(113,195)</u>
Income (loss) before contributions and transfers	218,132	218,132
Capital contributions	<u>247,741</u>	<u>247,741</u>
Change in net assets	465,873	465,873
Total net assets, beginning	<u>4,966,173</u>	<u>4,966,173</u>
Total net assets, ending	<u><u>\$ 5,432,046</u></u>	<u><u>\$ 5,432,046</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

Exhibit 8

Cash flows from operating activities:	
Cash received from customers	\$ 2,169,255
Cash paid for goods and services	(1,249,543)
Cash paid to or on behalf of employees	(112,031)
Customer deposits received and returned	<u>9,585</u>
Net cash provided (used) by operating activities	<u>817,266</u>
Cash flows from noncapital financing activities:	
Due to (from) other funds	<u>(302,641)</u>
Net cash provided by (used in) capital and related financing activities	<u>(302,641)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(241,224)
Principal payments on installment purchase	(475,396)
Interest paid on installment purchase	(116,621)
Capital contributions-Federal grants	160,318
Capital contributions-State grants	65,131
Capital contributions-Rowan County	<u>42,500</u>
Net cash provided by (used in) capital and related financing activities	<u>(565,292)</u>
Cash flows from investing activities:	
Interest on investments	<u>288</u>
Net increase (decrease) in cash and cash equivalents	(50,379)
Balance, beginning	<u>275,611</u>
Balance, ending	<u><u>\$ 225,232</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

Exhibit 8

Reconciliation of operating income to net cash
provided by operating activities:

Operating income (loss)	<u>\$ 331,327</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	332,359
Amortization	88,920
Change in assets and liabilities:	
(Increase) decrease in accounts receivable-customers	158,649
(Increase) decrease in accounts receivable-other	574
Increase (decrease) in accounts payable and accrued liabilities	(104,148)
Increase (decrease) in customer deposits	<u>9,585</u>
Total adjustments	<u>485,939</u>
Net cash provided by (used in) operating activities	<u><u>\$ 817,266</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

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 future capital purchases.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

Town Hall/Fire Department Capital Project Fund- This fund is used to account for the cost associated with a major renovation and expansion of a Town building to be used as a Town Hall and Fire Department.

The Town reports the following major enterprise funds:

Utility Fund- This fund is used to account for the Town's water and sewer operations. Effective July 1, 2011, the Town transferred its water and sewer system to Rowan-Salisbury Utilities, which is operated by the City of Salisbury, North Carolina. See Note IV.

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's 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.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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 the Capital Reserve Fund, the Town Hall/Fire Department Capital Project Fund, and the 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.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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.

3. Restricted Assets

Loan proceeds on deposit in the Town Hall/Fire Department Capital Project Fund are restricted to use for the renovation and construction of the project. Police drug account and McRuff Safe House monies are restricted for specific uses. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

4. 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, 2011. 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.

5. 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.

6. Prepaid Items

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

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2011

7. 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:

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

8. 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.

9. 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.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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

The governmental fund types classify fund balances as follows:

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

The Town of China Grove does not have any fund balance classified as Nonspendable.

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

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

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill Funds.

Restricted for Town Hall/Fire Department Capital Project – portion of fund balance related to borrowed funds restricted by the borrowing agreement to be used for the capital project.

Restricted Adequate Public Ordinance Funds – Funds collected from developers to be used only for the specific uses stated in the ordinance, subject to state laws governing the use of adequate public facilities ordinance funds.

Restricted for Capital Reserve – Funds set aside in a capital reserve fund to be used only for capital purchases.

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

The Town of China Grove does not have any fund balance classified as Committed.

Assigned fund balance – portion of fund balance that the Town of China Grove intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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

The Town of China Grove does not have a revenue spending policy that provides guidance for programs with multiple revenue sources.

The Town of China Grove has not adopted a minimum fund balance policy for the general fund.

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, 2011, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for general government activities by \$33,789 and for public safety by \$14,496. This over-expenditure occurred because of new leases which qualify to be treated as capital leases but were budgeted as if they were operating leases in both the general government and public safety activities and the failure to budget on-behalf of payments made for fire fighter retirement in the public safety department. Expenditures also exceeded appropriations for economic and physical development activities because expenses included in accounts payable related to a CDBG grant were not budgeted. Debt service payments resulting from the capital leases were also not budgeted. 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, 2011

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, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2011, the Town's deposits had a carrying amount of \$3,008,513 and a bank balance of \$3,709,457. Of the bank balance, \$847,182 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2011, the Town's petty cash fund totaled \$450.

2. Investments

At June 30, 2011, the Town of China Grove had \$654,054 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, 2011

3. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 50,912	\$ -	\$ -	\$ 50,912
Construction in progress	-	224,860	-	224,860
	50,912	224,860	-	275,772
Capital assets being depreciated:				
Buildings	522,923	-	-	522,923
Equipment	2,263,472	44,485	-	2,307,957
Infrastructure	198,255	368,924	-	567,179
Other improvements	143,525	-	-	143,525
	3,128,175	413,409	-	3,541,584
Less accumulated depreciation for:				
Buildings	304,937	10,459	-	315,396
Equipment	1,719,110	134,633	-	1,853,743
Infrastructure	-	5,810	-	5,810
Other improvements	64,096	5,741	-	69,837
	2,088,143	\$ 156,643	\$ -	2,244,786
Total accumulated depreciation	2,088,143	\$ 156,643	\$ -	2,244,786
Total capital assets being depreciated, net	1,040,032			1,296,798
Governmental activity capital assets, net	\$ 1,090,944			\$ 1,572,570

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

General government	\$ 7,484
Public safety	111,056
Transportation	6,830
Environmental protection	26,166
Cultural and recreation	5,107
	156,643
Total depreciation expense	\$ 156,643

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2011, was as follows-continued:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 41,200	\$ -	\$ 41,200	\$ -
Capital assets being depreciated:				
Pumps and pump house	57,653	-	-	57,653
Sewer and plant lines	5,361,063	281,310	-	5,642,373
Vehicles and equipment	588,729	-	-	588,729
Water and sewer systems	6,577,945	-	-	6,577,945
Wells	51,132	-	-	51,132
Total capital assets being depreciated	12,636,522	281,310	-	12,917,832
Less accumulated depreciation for:				
Pumps and pump house	51,999	1,615	-	53,614
Sewer and plant lines	1,132,388	145,752	-	1,278,140
Vehicles and equipment	520,652	15,450	-	536,102
Water and sewer systems	1,530,756	169,150	-	1,699,906
Wells	47,798	392	-	48,190
Total accumulated depreciation	3,283,593	332,359	-	3,615,952
Total capital assets being depreciated, net	9,352,929			9,301,880
Capital assets being amortized:				
Water line rights	177,840	\$ -	\$ 88,920	88,920
Business-type activities capital assets, net	\$ 9,571,969			\$ 9,390,800

Construction commitments

The government has active construction projects as of June 30, 2011. At year-end, the government's commitments with contractors are as follows:

Project	Spent-to- date	Remaining Commitment
Town Hall/Fire Department Project	\$ 105,650	\$ 16,884,350
Total		\$ 16,884,350

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2011

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 6.41% and 6.47%, 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, 2011, 2010, and 2009 were \$41,956, \$41,956, and \$43,765, 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, 2010 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>12</u>
Total	<u><u>12</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, 2011

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, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% - 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. 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	\$ 7,527
Interest on net pension obligation	2,171
Adjustment to annual required contribution	<u>(2,324)</u>
Annual pension cost	7,374
Contributions made	<u>-</u>
Increase (decrease) in net pension obligation	7,374
Net pension obligation beginning of year	<u>43,417</u>
Net pension obligation end of year	<u><u>\$ 50,791</u></u>

For Year Ended June 30	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
2009	\$6,824	0.00%	\$35,671
2010	\$7,746	0.00%	\$43,417
2011	\$7,374	0.00%	\$50,791

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

4. Funding Status and Funding Progress- As of December 31, 2010, 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 \$32,748. The covered payroll (annual payroll of active employees covered by the plan) was \$389,339, and the ratio of the UAAL to the covered payroll was 8.41 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, 2011 were \$25,760, which consisted of \$22,555 from the Town and \$3,205 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, 2011

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)	\$ -	\$ 71
Taxes receivable (General Fund)	58,340	-
	\$ 58,340	\$ 71

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 a self-funded risk financing pool administered by the North Carolina League of Municipalities. Through the pool the Town obtains worker's compensation coverage up to the statutory limits. The Town carries commercial insurance for general liability, auto coverage, and property coverage. 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 is 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, 2011

4. Reconciliation of Powell Bill Expenditures

The following is a reconciliation of Powell Bill expenditures:

Per financial statements-transportation	\$ 457,836
Add prior year accounts payable item on Powell Bill report	<u>106,714</u>
 Per Powell Bill Expenditures Report	 <u><u>\$ 564,550</u></u>

5. Long-Term Obligations

a. Capital Leases

The Town has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The first agreement was executed on November 16, 2010 to lease a copier for administrative use and requires 60 monthly payments of \$216.44. The second agreement was executed on December 20, 2010 to lease a copier for the police department and requires 60 monthly payments of \$121.02. The third agreement was executed on February 28, 2011 to lease a telephone system and requires 12 payments of \$492.88 followed by 48 payments of \$731.88. The copier agreements allow for the purchase of the copiers at the end of the lease for fair market value. The telephone system agreement allows for the purchase of the system at the end of the lease for \$1.

The following is an analysis of the assets recorded under capital leases at June 30, 2011:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 44,485	\$ 2,770	\$ 41,715
 Total	 <u>\$ 44,485</u>	 <u>\$ 2,770</u>	 <u>\$ 41,715</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011 are as follows:

Year Ending June 30	
2012	\$ 10,920
2013	12,832
2014	12,832
2015	12,832
2016	<u>7,664</u>
 Total minimum lease payments	 57,080
Less amount representing interest	<u>14,679</u>
 Present value of the minimum lease payments	 <u><u>\$ 42,401</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2011

b. Installment Purchase

The Town has entered into two separate loan agreements to borrow \$1,854,725 and \$280,000 from the United States Department of Agriculture (USDA) to renovate and upgrade an existing Town-owned building for use as its Town Hall and Fire Department. The terms of the agreements call for the loans to close and the funds to be disbursed to the Town upon completion of the project, which must be prior to September 30, 2015. The loans will be payable in 30 annual installments to begin one year after the close of the project at the prevailing interest rate at closing, not to exceed 4% for the first loan or 4.25% for the second loan.

To provide funds for the construction, the Town borrowed \$1,854,725 from a local financial institution through a short-term financing agreement on March 14, 2011. The agreement calls for interest only to be paid quarterly beginning June 14, 2011 at the rate of 1.5% per annum. The entire principal balance is due September 14, 2012. Since management anticipates that the project will be completed in time to allow the proceeds from the USDA loans to be used to pay off the short-term financing, the following schedule of future minimum payments assumes that will be the case.

The future minimum payments of the installment purchase as of June 30, 2011 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2012	\$ -	\$ 27,821
2013	-	6,955
2014	33,070	74,189
2015	34,393	72,866
2016	35,768	71,490
2017-2021	201,483	334,812
2022-2026	245,135	291,160
2027-2031	298,244	238,051
2032-2036	362,859	173,436
2037-2041	441,473	94,821
2042-2043	202,300	12,217
	<u>\$1,854,725</u>	<u>\$ 1,397,818</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2011

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, 2011 are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2012	\$ 176,987	\$ 27,610
2013	176,987	23,008
2014	176,987	18,407
2015	176,987	13,805
2016	176,987	9,203
2017	176,984	4,602
	<u>\$1,061,919</u>	<u>\$ 96,635</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, 2011 are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2012	\$ 83,907	\$ 25,876
2013	83,907	23,720
2014	83,907	21,564
2015	83,907	19,408
2016	83,907	17,251
2017-2021	419,534	53,910
2022-2023	167,814	6,469
	<u>\$1,006,883</u>	<u>\$ 168,198</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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, 2011 are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2012	\$ 125,583	\$ 46,315
2013	125,583	43,420
2014	125,583	40,526
2015	125,583	37,631
2016	125,583	34,736
2017-2021	627,914	130,261
2022-2026	627,914	57,894
2027	125,582	2,895
	<u>\$2,009,325</u>	<u>\$ 393,678</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, 2011 are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2012	\$ 88,920	\$ 7,166
	<u>\$ 88,920</u>	<u>\$ 7,166</u>

At June 30, 2011 the Town of China Grove, North Carolina had a legal debt margin of \$16,385,098.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

g. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ -	\$ 1,854,725	\$ -	\$ 1,854,725	\$ -
Capitalized leases	-	44,485	2,084	42,401	5,755
Compensated absences	62,082	-	1,471	60,611	35,027
Net pension benefit	43,417	7,374	-	50,791	-
Governmental activities long-term liabilities	<u>105,499</u>	<u>1,906,584</u>	<u>3,555</u>	<u>2,008,528</u>	<u>40,782</u>
Business-type activities:					
Installment purchases	4,642,441	-	475,396	4,167,045	475,396
Compensated absences	12,243	-	12,243	-	-
Business-type activities long-term liabilities	<u>\$ 4,654,684</u>	<u>\$ -</u>	<u>\$ 487,639</u>	<u>\$ 4,167,045</u>	<u>\$ 475,396</u>

C. Interfund Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2011, consist of the following:

Due to the General Fund from the Utility Fund	\$ 9,446
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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.

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

For the fiscal year ended June 30, 2011, the Town of China Grove has recognized on-behalf of payments for pension contributions made by the State as revenue and an expenditure of \$12,037 for the 36 volunteer and employed firemen who perform firefighting duties for the Town's fire department. The volunteers and employees 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, 2011

E. Fund Balance

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

Total fund balance-General Fund	\$ 1,962,156
Less:	
Stabilization by State Statute	448,914
Streets-Powell	122,251
Adequate Public Facilities Ordinance-Police	8,090
Adequate Public Facilities Ordinance-Fire	33,545
Adequate Public Facilities Ordinance-Parks	16,180
Appropriated Fund Balance in 2012 budget	92,100
Working Capital/Fund Balance Policy	-
Remaining Fund Balance	1,241,076

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, 2011, 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, 2011. 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.

VI. Subsequent Events

On July 1, 2011, subsequent to year end, the Town transferred its water and sewer system to Salisbury-Rowan Utilities, which is operated by the City of Salisbury. The agreement calls for Salisbury-Rowan Utilities to reimburse the Town of China Grove for the debt payments made on the outstanding Utility Fund debt.

Management has evaluated the subsequent events through November 2, 2011, the date the financial statements were available to be issued.

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)
12/31/05	-	\$ 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%
12/31/09	-	42,071	42,071	0%	323,748	12.99%
12/31/10	-	32,748	32,748	0%	389,339	8.41%

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>
2006	\$ 4,397	0.0%
2007	5,425	0.0%
2008	4,958	0.0%
2009	6,497	0.0%
2010	7,527	0.0%
2011	8,366	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	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases	4.25% - 7.85%
Includes inflation at	3.00%
Cost-of living adjustments	N/A

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, 2011

	Budget	Actual	Variance Positive (Negative)
Revenues			
Ad valorem taxes			
Taxes	\$ 1,210,800	\$ 1,205,766	\$ (5,034)
Penalties and interest	7,500	8,571	1,071
Total	<u>1,218,300</u>	<u>1,214,337</u>	<u>(3,963)</u>
Unrestricted intergovernmental			
Local option sales taxes	643,000	647,543	4,543
Telecommunications sales tax	57,000	58,883	1,883
Utility franchise tax	107,000	111,944	4,944
Piped natural gas	13,000	13,591	591
Video franchise fee	27,000	28,248	1,248
Cable TV franchise fee	4,300	5,091	791
Beer and wine tax	19,000	19,375	375
ABC profit distribution	-	3,453	3,453
Total	<u>870,300</u>	<u>888,128</u>	<u>17,828</u>
Restricted intergovernmental			
Powell Bill allocation	112,500	116,924	4,424
Controlled substance tax	-	2,730	2,730
Fire tax	13,000	11,360	(1,640)
Fire tax supplement	9,100	9,156	56
CDBG funds-Tuscarora	-	52,850	52,850
Salisbury/Rowan Schools-SRO	34,600	34,685	85
Public safety grants	29,600	30,079	479
On-behalf of payments - Fire	-	12,037	12,037
CMAQ grant proceeds	375,500	340,511	(34,989)
Solid waste disposal	3,100	2,980	(120)
Total	<u>577,400</u>	<u>613,312</u>	<u>35,912</u>
Permits and fees			
Police fines and citations	5,000	6,869	1,869
Zoning and development fees	2,000	2,315	315
Community building rent	7,200	8,150	950
Trash can fees	5,000	5,272	272
Total	<u>19,200</u>	<u>22,606</u>	<u>3,406</u>
Investment earnings	-	4,517	4,517
Miscellaneous			
Other	3,000	5,859	2,859
Total	<u>3,000</u>	<u>5,859</u>	<u>2,859</u>
Total revenues	<u>\$ 2,688,200</u>	<u>\$ 2,748,759</u>	<u>\$ 60,559</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, 2011

	Budget	Actual	Variance Positive (Negative)
Expenditures			
General government			
Governing body			
Salaries and wages	\$ 6,720	\$ 6,720	\$ -
Payroll tax	580	514	66
Materials and supplies	100	-	100
Advertising	100	222	(122)
Membership and dues	7,000	6,954	46
Miscellaneous	200	1,221	(1,021)
Community appearance	10,000	9,162	838
Farmers' Day	7,000	7,108	(108)
Grant match bus service	7,500	7,500	-
Donations	5,000	5,523	(523)
	<u>44,200</u>	<u>44,924</u>	<u>(724)</u>
Administration			
Salaries and wages	183,300	191,744	(8,444)
Payroll tax	14,100	14,819	(719)
Employee benefits	38,900	33,154	5,746
Workers compensation	1,000	748	252
Professional fees-accounting	21,000	18,000	3,000
Professional fees-legal	6,000	14,372	(8,372)
Professional fees	25,000	4,340	20,660
Office supplies	3,000	3,713	(713)
Materials and supplies	1,500	940	560
Contracted services	10,000	3,916	6,084
Technical support	12,000	18,769	(6,769)
Travel and schools	4,500	518	3,982
Telephone and postage	7,000	7,693	(693)
Utilities	8,500	7,277	1,223
Printing and codification	1,000	1,355	(355)
Repair and maintenance	8,000	8,865	(865)
Advertising	200	372	(172)
Bank service fees	-	1,671	(1,671)
Memberships and dues	500	332	168
Miscellaneous	2,500	4,603	(2,103)
Leases and maintenance	12,000	10,002	1,998
Insurance	6,800	10,100	(3,300)
Rowan County tax services	22,000	22,942	(942)
Capital outlay	-	41,620	(41,620)
	<u>388,800</u>	<u>421,865</u>	<u>(33,065)</u>
Total general government	<u>\$ 433,000</u>	<u>\$ 466,789</u>	<u>\$ (33,789)</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, 2011

	Budget	Actual	Variance Positive (Negative)
Public safety			
Police department			
Salaries and wages	\$ 409,200	\$ 413,735	\$ (4,535)
School resource officers	29,500	31,387	(1,887)
Salaries and wages-overtime	5,000	1,837	3,163
Salaries and wages-part-time	10,500	600	9,900
Payroll tax	34,400	35,020	(620)
Employee benefits	120,300	104,656	15,644
Workers compensation	15,000	13,213	1,787
Materials and supplies	10,000	7,270	2,730
Fuel and oil	30,000	40,475	(10,475)
Uniforms	5,000	3,116	1,884
Weapons	4,000	1,958	2,042
Contract services	5,000	4,916	84
Technical support	5,500	6,213	(713)
Travel and schools	3,000	2,075	925
Telephone and postage	6,000	6,494	(494)
Cell phones and pagers	12,000	7,617	4,383
Utilities	7,000	6,197	803
Repairs and maintenance	25,000	18,205	6,795
Repairs and maintenance-building	16,000	24,613	(8,613)
Memberships and dues	300	472	(172)
Miscellaneous	2,000	1,828	172
Insurance	12,100	15,187	(3,087)
Capital outlay	-	23,036	(23,036)
	<u>766,800</u>	<u>770,120</u>	<u>(3,320)</u>
Total police department	\$ 766,800	\$ 770,120	\$ (3,320)

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, 2011

	Budget	Actual	Variance Positive (Negative)
Fire department			
Salaries and wages-regular	\$ 70,500	\$ 70,905	\$ (405)
Salaries and wages-overtime	500	300	200
Salaries and wages-part time	60,000	63,279	(3,279)
Salaries and wages-per call	8,000	6,972	1,028
Payroll tax	10,800	11,055	(255)
Employee benefits	17,500	15,348	2,152
Workers compensation	8,800	7,704	1,096
Professional fees	25,000	-	25,000
Food and provisions	400	281	119
Medical supplies	1,000	2,157	(1,157)
Material and supplies	6,000	5,874	126
Fuel and oil	8,000	7,021	979
Uniforms	3,500	1,787	1,713
Turn out gear	12,000	1,526	10,474
Contracted services	-	429	(429)
Travel and schools	1,000	1,153	(153)
Telephone and postage	1,400	1,468	(68)
Cell phones and pagers	6,000	2,972	3,028
Utilities	7,500	6,406	1,094
Repairs and maintenance	81,000	114,339	(33,339)
Repairs and maintenance-buildings	-	3,374	(3,374)
Memberships and dues	900	1,050	(150)
Miscellaneous	1,000	3,992	(2,992)
Insurance	9,000	10,707	(1,707)
Fire pension fund	2,000	840	1,160
Fire on-behalf of payments	-	12,037	(12,037)
	<u>341,800</u>	<u>352,976</u>	<u>(11,176)</u>
Total fire department			
	<u>341,800</u>	<u>352,976</u>	<u>(11,176)</u>
Total public safety	<u>1,108,600</u>	<u>1,123,096</u>	<u>(14,496)</u>
Transportation			
Streets and highways			
Professional fees-engineer	20,000	18,386	1,614
Professional fees	2,000	63,600	(61,600)
Repairs and maintenance	10,000	5,476	4,524
Drainage	2,500	-	2,500
Miscellaneous	2,500	-	2,500
Paving	73,500	-	73,500
Right of way	2,000	1,450	550
Capital outlay	375,500	368,924	6,576
	<u>488,000</u>	<u>457,836</u>	<u>30,164</u>
Total transportation	<u>\$ 488,000</u>	<u>\$ 457,836</u>	<u>\$ 30,164</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, 2011

	Budget	Actual	Variance Positive (Negative)
Environmental protection			
Public works			
Employee wages-regular	\$ 187,000	\$ 182,443	\$ 4,557
Employee wages-overtime	2,000	1,701	299
Payroll taxes	14,500	13,972	528
Employee benefits	55,300	44,150	11,150
Workers compensation	13,500	8,163	5,337
Professional fees	-	1,450	(1,450)
Materials and supplies	10,000	4,273	5,727
Fuel and oil	13,000	14,596	(1,596)
Uniforms	1,500	1,167	333
Safety equipment and materials	500	-	500
Contracted services	-	1,203	(1,203)
Travel and schools	500	-	500
Telephone and postage	1,700	1,152	548
Cell phones and pagers	2,000	1,917	83
Utilities	2,900	1,877	1,023
Street lights	50,000	38,672	11,328
Repairs and maintenance	18,000	25,186	(7,186)
Miscellaneous	1,200	917	283
Equipment rental	1,000	366	634
Insurance	7,300	7,341	(41)
Garbage and recycling contract	208,000	219,162	(11,162)
Landfill charges	2,300	1,369	931
Total environmental protection	<u>592,200</u>	<u>571,077</u>	<u>21,123</u>
Economic and physical development			
Planning			
Professional fees - planner	47,000	44,015	2,985
Contracted services	2,000	5,041	(3,041)
Telephone and postage	200	171	29
Advertising	2,000	1,445	555
Tourism and economic development	3,340	3,340	-
Payment to Tuscarora-CDBG funds	-	52,850	(52,850)
Total economic and physical development	<u>\$ 54,540</u>	<u>\$ 106,862</u>	<u>\$ (52,322)</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, 2011

	Budget	Actual	Variance Positive (Negative)
Cultural and recreational			
Recreation			
Contracted services	\$ 30,000	\$ 31,671	\$ (1,671)
Christmas activities	4,200	5,063	(863)
Community building expenses	15,000	10,864	4,136
Telephone and postage	100	59	41
Utilities	7,500	7,804	(304)
Miscellaneous	500	-	500
Insurance	3,200	3,160	40
Playground expense	8,000	6,160	1,840
Little League	2,000	4,469	(2,469)
	70,500	69,250	1,250
Total cultural and recreational			
Debt service			
Principal retirement	-	2,084	(2,084)
Interest	-	2,129	(2,129)
	-	4,213	(4,213)
Total debt service			
Total expenditures	2,746,840	2,799,123	(52,283)
Revenues over (under) expenditures	(58,640)	(50,364)	8,276
Other financing sources (uses)			
Proceeds from borrowing	-	44,485	44,485
Fund balance appropriated	58,640	-	(58,640)
	58,640	44,485	(14,155)
Total other financing sources (uses)			
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	(5,879)	\$ (5,879)
Fund balances			
Fund balance, beginning		1,968,035	
Fund balance, end		\$ 1,962,156	

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, 2011

	Budget	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues					
Interest	\$ 15,000	\$ 18,399	\$ 11	\$ 18,410	\$ 3,410
Total revenues	15,000	18,399	11	18,410	3,410
Other financing sources (uses)					
Transfer from General Fund	180,000	180,000	-	180,000	-
Transfer to General Fund	(195,000)	(189,400)	-	(189,400)	5,600
Total other financing sources (uses)	(15,000)	(9,400)	-	(9,400)	5,600
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 8,999	\$ 11	\$ 9,010	\$ 9,010

TOWN OF CHINA GROVE, NORTH CAROLINA
TOWN HALL / FIRE DEPARTMENT CAPITAL PROJECT FUND
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
From Inception and For the Year Ended June 30, 2011

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Proceeds from borrowing	\$ 1,854,725	\$ -	\$ 1,854,725	\$ 1,854,725	\$ -
Investment earnings	-	-	549	549	549
Transfer from General Fund	310,484	-	-	-	(310,484)
Total revenues	2,165,209	-	1,855,274	1,855,274	(309,935)
Expenditures					
Professional fees	142,478	-	102,373	102,373	40,105
Testing	12,000	-	-	-	12,000
Bank fees	-	-	7,525	7,525	(7,525)
Construction	1,790,000	-	108,007	108,007	1,681,993
Interest expense	41,731	-	6,955	6,955	34,776
Contingency	179,000	-	-	-	179,000
Total expenditures	2,165,209	-	224,860	224,860	1,940,349
Revenues over (under) expenditures	\$ -	\$ -	\$ 1,630,414	\$ 1,630,414	\$ 1,630,414

TOWN OF CHINA GROVE, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Charges for services:			
Water sales	\$ 940,000	\$ 900,229	\$ (39,771)
Sewer sales	871,900	888,140	16,240
Debt service fee	194,900	192,473	(2,427)
Reconnection fees	14,000	16,440	2,440
Late charges	36,000	18,956	(17,044)
Total charges for services	<u>2,056,800</u>	<u>2,016,238</u>	<u>(40,562)</u>
Water and sewer taps	<u>7,000</u>	<u>13,750</u>	<u>6,750</u>
Other operating revenues:			
Bad check fees	1,000	1,250	250
Miscellaneous	1,000	792	(208)
Total other operating revenues	<u>2,000</u>	<u>2,042</u>	<u>42</u>
Total operating revenues	<u>2,065,800</u>	<u>2,032,030</u>	<u>(33,770)</u>
Nonoperating revenues:			
Investment earnings	<u>-</u>	<u>287</u>	<u>287</u>
Total nonoperating revenues	<u>-</u>	<u>287</u>	<u>287</u>
Total revenues	<u>\$ 2,065,800</u>	<u>\$ 2,032,317</u>	<u>\$ (33,483)</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, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Water distribution:			
Salaries and wages-regular	\$ 85,500	\$ 94,936	\$ (9,436)
Salaries and wages-overtime	800	304	496
Payroll taxes	6,700	6,442	258
Employee benefits	18,800	23,098	(4,298)
Workers compensation insurance	3,500	3,616	(116)
Professional fees-engineer	-	1,329	(1,329)
Office supplies	800	120	680
Materials and supplies	25,000	32,881	(7,881)
Fuel and oil	3,300	3,324	(24)
Uniforms	600	709	(109)
Technical support	3,500	-	3,500
Travel and schools	500	100	400
Telephone and postage	4,500	4,051	449
Cell phones and pagers	1,700	1,548	152
Utilities	16,000	12,963	3,037
Repairs and maintenance	10,000	6,717	3,283
Water purchase (Salisbury)	498,800	479,177	19,623
Memberships and dues	700	1,765	(1,065)
Miscellaneous	500	306	194
Permits and licenses	3,300	2,420	880
Water testing	13,400	8,070	5,330
Tank maintenance	21,500	21,449	51
Insurance	7,300	6,493	807
Bad debt	-	14,510	(14,510)
	<u> </u>	<u> </u>	<u> </u>
Total water distribution	<u>\$ 726,700</u>	<u>\$ 726,328</u>	<u>\$ 372</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, 2011

	Budget	Actual	Variance Positive (Negative)
Sewer collection:			
Professional fees-engineer	\$ -	\$ 2,589	\$ (2,589)
Office supplies	500	10	490
Materials and supplies	7,500	7,764	(264)
Fuel and oil	3,300	3,610	(310)
Telephone and postage	3,800	4,764	(964)
Utilities	13,500	10,324	3,176
Repairs and maintenance	13,000	13,103	(103)
Sewer treatment charges	697,200	508,493	188,707
Memberships and dues	100	-	100
Miscellaneous	800	29	771
Permits and licenses	500	960	(460)
Equipment rental	500	-	500
Insurance	6,300	6,779	(479)
Bad debt	-	6,914	(6,914)
Total sewer collection	747,000	565,339	181,661
Debt service:			
Principal retirement	475,400	475,396	4
Interest expense	116,700	116,621	79
Total debt service	592,100	592,017	83
Total expenditures	2,065,800	1,883,684	182,116
Revenues over expenditures	\$ -	\$ 148,633	\$ 148,633

TOWN OF CHINA GROVE, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2011

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual			
Revenues over (under) expenditures		\$ 148,633	
Reconciling items			
Principal retirement		475,396	
Increase (decrease) in accrued interest expense		3,139	
Decrease in accrued compensated absences		12,243	
Depreciation		(332,359)	
Amortization of water line rights		(88,920)	
Capital contributions-Capital Project Fund		247,741	
Total reconciling items		317,240	
Change in net assets		\$ 465,873	

TOWN OF CHINA GROVE, NORTH CAROLINA
ALTEC SEWER PROJECT
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
From Inception and For the Year Ended June 30, 2011

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Restricted intergovernmental					
CDBG grant	\$ 180,000	\$ -	\$ 160,318	\$ 160,318	\$ (19,682)
IDF grant	75,000	-	65,131	65,131	(9,869)
Rowan County match	42,500	20,208	22,292	42,500	-
Transfer from Utility Fund	42,500	-	-	-	(42,500)
	<u>340,000</u>	<u>20,208</u>	<u>247,741</u>	<u>267,949</u>	<u>(72,051)</u>
Expenditures					
Professional fees	85,000	40,415	14,661	55,076	29,924
Miscellaneous	-	785	-	785	(785)
Construction-CDBG	180,000	-	160,318	160,318	19,682
Construction-IDF	75,000	-	65,131	65,131	9,869
	<u>340,000</u>	<u>41,200</u>	<u>240,110</u>	<u>281,310</u>	<u>58,690</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (20,992)</u>	<u>\$ 7,631</u>	<u>\$ (13,361)</u>	<u>\$ (13,361)</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2011

Fiscal Year	Uncollected Balance June 30, 2010	Additions	Collections and Credits	Uncollected Balance June 30, 2011
2010-2011	\$ -	\$ 1,202,864	\$ 1,162,904	\$ 39,960
2009-2010	53,754	-	43,034	10,720
2008-2009	11,889	-	6,685	5,204
2007-2008	5,305	-	954	4,351
2006-2007	2,799	-	695	2,104
2005-2006	2,885	-	433	2,452
2004-2005	1,977	-	127	1,850
2003-2004	1,793	-	110	1,683
2002-2003	1,870	-	44	1,826
2001-2002	1,700	-	57	1,643
2000-2001	1,389	-	1,389	-
	<u>\$ 85,361</u>	<u>\$ 1,202,864</u>	<u>\$ 1,216,432</u>	71,793

Less allowance for uncollectible accounts:

General Fund

13,453

Ad valorem taxes receivable-net

58,340

Reconcilement with revenues:

Ad valorem taxes - General Fund

1,214,337

Reconciling items

Interest collected

(8,571)

Discounts allowed

9,461

Taxes written off

1,205

Total collections and credits

\$ 1,216,432

TOWN OF CHINA GROVE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Year Ended June 30, 2011

	Town-wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current					
Current year's rate	\$272,541,613	\$.43	\$1,171,780	\$ 1,113,637	\$ 58,143
Prior year's rate	7,954,834	.38	30,228	-	30,228
Penalties	-		348	348	-
Total	<u>280,496,447</u>		<u>1,202,356</u>	<u>1,113,985</u>	<u>88,371</u>
Discoveries					
Current year taxes	607,472	.43	2,612	2,283	329
Prior year taxes	<u>10,520</u>	.38	<u>40</u>	<u>-</u>	<u>40</u>
Total	<u>617,992</u>		<u>2,652</u>	<u>2,283</u>	<u>369</u>
Abatements	<u>(498,572)</u>		<u>(2,144)</u>	<u>(417)</u>	<u>(1,727)</u>
Total property valuation	<u><u>\$280,615,867</u></u>				
Net levy			1,202,864	1,115,851	87,013
Uncollected taxes at June 30, 2011			<u>(39,960)</u>	<u>(28,788)</u>	<u>(11,172)</u>
Current year's taxes collected			<u><u>\$1,162,904</u></u>	<u><u>\$ 1,087,063</u></u>	<u><u>\$ 75,841</u></u>
Current levy collection percentage			<u><u>96.68%</u></u>	<u><u>97.42%</u></u>	<u><u>87.16%</u></u>

SHERRILL & SMITH, CPAs, PA

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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, 2011, which collectively comprises the Town of China Grove's basic financial statements, and have issued our report thereon dated November 2, 2011. 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

Management of the Town of China Grove is responsible for establishing and maintaining effective 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.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting (2011-1 and 2011-2). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 entity, 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

November 2, 2011

SHERRILL & SMITH, CPAs, PA

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

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

Compliance

We have audited the Town of China Grove, North Carolina, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of China Grove's major federal programs for the year ended June 30, 2011. The Town of China Grove's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of China Grove's management. Our responsibility is to express an opinion on the Town of China Grove's compliance based on our audit.

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

In our opinion, the Town of China Grove complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of management, others within the entity, members of the Town 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

November 2, 2011

TOWN OF CHINA GROVE, NORTH CAROLINA
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2011

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/ Pass-Through Grantor's Number	Federal (Direct & Pass-through) Expenditures	State Expenditures
Federal Grants				
Cash Program:				
<u>U.S. Dept. of Housing and Urban Development</u>				
Passed-through the N.C. Department of Commerce:				
Community Development Block Grant, Small Cities DOC Project Number E-1				
Tuscarora Yarns Building Reuse	14.228	B-08-DC-37-0001	\$ 52,850	
Passed-through the N.C. Department of Commerce:				
Community Development Block Grant, Small Cities DOC Project Number E-1				
Alec Industries Sewer	14.228	08-E-1921	160,318	
<u>U.S. Dept. of Transportation</u>				
Highway Planning and Construction				
Passed-through the N.C. Department of Transportation:				
CMAQ Sidewalks	20.205	TIP C-4910	340,510	
<u>U.S. Dept. of Transportation</u>				
Passed-through the N.C. Department of Transportation:				
North Carolina Governor's Highway Safety Program				
	20.609	PT-11-03-04-05	21,197	
<u>U.S. Dept. of Transportation</u>				
Passed-through the N.C. Department of Transportation:				
North Carolina Governor's Highway Safety Program				
	20.609	PT-10-03-04-14	7,882	
Noncash Program:				
<u>U.S. Dept. of Agriculture</u>				
Rural Development				
Community Facilities Loans and Grants				
Fire Station Addition/Town Hall Renovation	10.780	NC-97-01	108,007	

TOWN OF CHINA GROVE, NORTH CAROLINA
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2011

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/ Pass-Through Grantor's Number	Federal (Direct & Pass-through) Expenditures	State Expenditures
State Grants				
Cash Program:				
<u>N. C. Department of Transportation</u>				
Powell Bill	N/A	9.90000		\$ 117,326
 <u>N. C. Department of Commerce</u>				
Industrial Development Fund Grant Altec Industries	N/A	I-378		65,131
Total Federal and State Assistance Programs			\$ 690,764	\$ 182,457

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

Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town of China Grove, North Carolina and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the government-wide financial statements.

Town of China Grove, North Carolina
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2011

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___yes X_no
 - Significant Deficiency(s) identified that are not considered to be material weaknesses? ___X_yes ___none
- reported
- Noncompliance material to financial statements noted ___yes X_no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ___yes X_no
 - Significant Deficiency(s) identified that are not considered to be material weaknesses? ___yes X_none
- reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ___yes X_no

Identification of major federal programs:

CFDA Numbers	Names of Federal Program or Cluster
10.780	Community Facilities Loans and Grants
14.228	Community Development Block Grant, Small Cities
20.205	Highway Planning and Construction
20.609	Safety Belt Performance Grants

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

Auditee qualified as low-risk auditee? ___yes X_no

State Awards

No State programs for the Town of China Grove meet the criteria to be considered a major program.

Town of China Grove, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section II – Financial Statement Findings

Significant Deficiencies

2011-1 Segregation of Duties

Criteria: Duties should be segregated to provided reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among Town personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

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

2011-2 Monitoring Service Provider

Criteria: Processes outsourced to a third party service provider should be monitored to assess whether the controls used by the service provider are operating as intended, controls at the Town should be modified as appropriate for changed conditions, monthly reports received should be reviewed and reconciled, and controls should be in place to assure that information recorded in the Town's accounting system reflect the activity that has transpired.

Effect: Information provided by the service provider could be inaccurate.

Cause: There is no cost effective method to monitor the service provider.

Recommendation: Reports provided by the service provider should be reviewed by a designated Town representative for reasonableness.

View of responsible officials and planned corrective actions: The Town agrees with this finding.

Section III – Federal Award Findings and Questioned Costs

None reported

Section IV – State Award Findings and Questioned Costs

None reported.

Town of China Grove, North Carolina
Corrective Action Plan
For the Year Ended June 30, 2011

Section II. Financial Statement Findings

Significant Deficiencies

2011-1 Segregation of Duties

Name of contact person: Mary Jo Bopp, Finance Director

Corrective Action: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The governing board will become more involved in providing some of these controls.

Proposed Completion Date: The Board will implement the above procedure immediately.

2011-2 Monitoring Service Provider

Name of contact person: Mary Jo Bopp, Finance Director

Corrective action: There is no cost effective method to monitor the service provider. Reports provided by the service provider will be reviewed by a designated Town representative for reasonableness.

Proposed Completion Date: The Board will implement the above procedure immediately.

Section III – Federal Award Findings and Questioned Costs

None reported

Section IV – State Award Findings and Questioned Costs

None reported.

Town of China Grove, North Carolina
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011

There were no prior year audit findings.