

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

**For the Fiscal Year Ended
June 30, 2014**

Town Council Members:

Don Bringle, Mayor
Lee Withers, Mayor Pro Tem
Brandon Linn
Steve Stroud
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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of China Grove, North Carolina as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of China Grove's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of China Grove, North Carolina as of June 30, 2014, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 13 and the Law Enforcement Officers' Special Separation Allowance's Schedule of Funding Progress and Employer Contributions on pages 39 and 40, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of China Grove, North Carolina. The introductory information, combining and individual nonmajor 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 combining and individual nonmajor fund financial statements, budgetary schedules, other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, budgetary schedules, other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town of China Grove's internal control over financial reporting and compliance.

Sherrill & Smith, CPAs, PA

Salisbury, North Carolina
September 30, 2014

Management's Discussion and Analysis

As management of the Town of China Grove, we offer readers of the Town of China Grove's financial statements this narrative overview and analysis of the financial activities of the Town of China Grove for the fiscal year ended June 30, 2014. 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

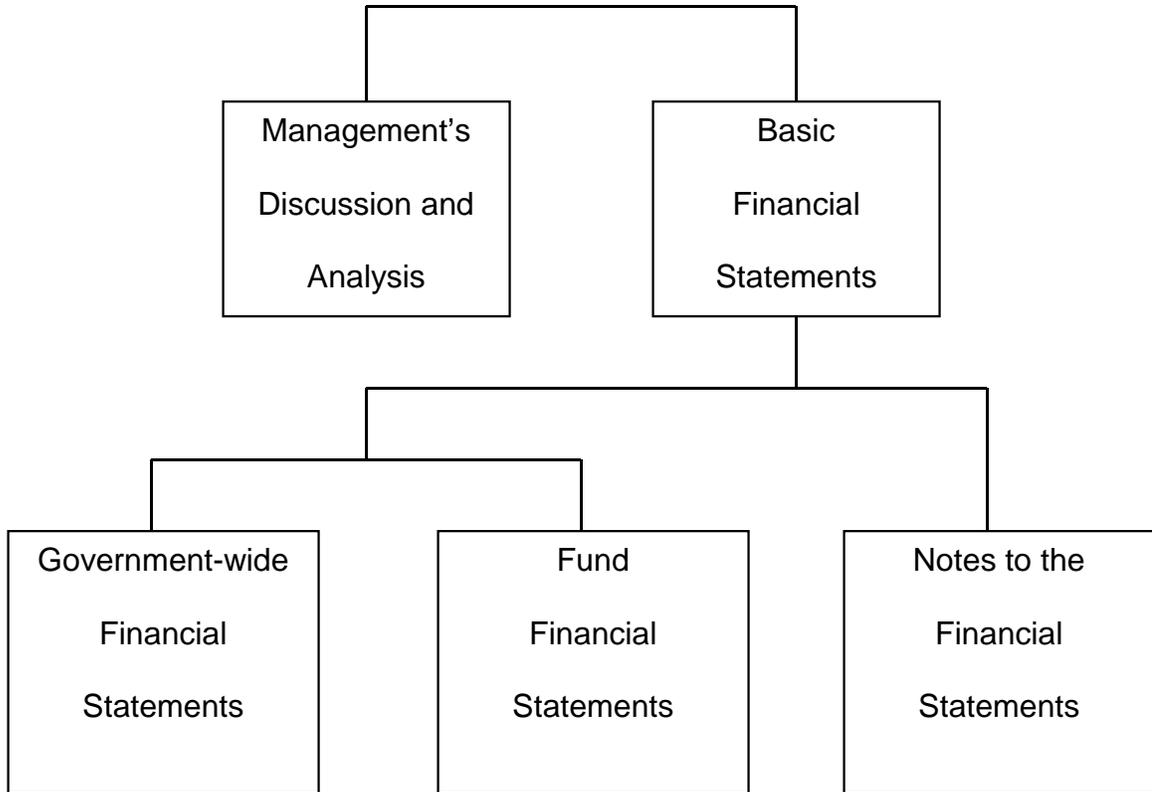
- The assets and deferred outflows of resources of the Town *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$3,243,875 (*net position*).
- The government's total net position increased by \$228,368, primarily due to diligent cost-saving measures by the town.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,680,410 an increase of \$202,799 in comparison with the prior year. Approximately 79% of this total amount, or \$2,113,317, 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 \$2,113,317, which is 66% of total general fund expenditures for the fiscal year.
- The Town's total debt decreased \$527,544 during the current fiscal year. The key factor in this decrease was the debt service payments made during the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Summary → Detail

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 5) 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 two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison 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 position and how it has changed. Net position is the difference between the Town's assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the 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 Town of China Grove does not have any business-type activities. 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 1) 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 are governmental funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All 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 accounting* that provides a short-term spending focus. As a result, the governmental

Management Discussion and Analysis
Town of China Grove

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 Position 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 NC 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.

Proprietary Funds – The Town does not have a Proprietary Fund at this time.

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 21 through 38 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 39 of this report.

Interdependence with Other Entities – The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

Government-Wide Financial Analysis

The Town of China Grove's Net Position

Figure 2

	Governmental		Total	
	Activities			
	2014	2013	2014	2013
Current and other assets	\$ 3,365,304	\$ 3,065,991	\$ 3,365,304	\$ 3,065,991
Debt reimbursement receivable	2,532,221	2,918,697	2,532,221	2,918,697
Capital assets	3,332,174	3,414,427	3,332,174	3,414,427
Total assets and deferred outflows of resources	9,229,699	9,399,115	9,229,699	9,399,115
Long-term liabilities outstanding	5,712,806	6,220,998	5,712,806	6,220,998
Other liabilities	273,018	159,047	273,018	159,047
Deferred inflows of resources	-	3,563	-	3,563
Total liabilities and deferred inflows of resources	5,985,824	6,383,608	5,985,824	6,383,608
Net position:				
Net investment in capital assets	1,147,182	1,224,950	1,147,182	1,224,950
Restricted for:				
Restricted	442,058	461,015	442,058	461,015
Unrestricted	1,654,635	1,329,542	1,654,635	1,329,542
Total net assets	\$ 3,243,875	\$ 3,015,507	\$ 3,243,875	\$ 3,015,507

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town exceeded liabilities and deferred inflows by \$3,243,875 as of June 30, 2014. The Town's net position increased by \$228,368 for the fiscal year ended June 30, 2014. The largest portion of net position (35%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). 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 position (14%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,654,635 is unrestricted.

Management Discussion and Analysis
Town of China Grove

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

	Governmental Activities		Total	
	2014	2013	2014	2013
Revenues:				
Program revenues:				
Charges for services	\$ 14,131	\$ 14,848	\$ 14,131	\$ 14,848
Operating grants and contributions	284,238	315,835	284,238	315,835
Capital grants and contributions	-	-	-	-
General revenues:				
Property taxes	1,564,993	1,495,693	1,564,993	1,495,693
Grants and contributions not restricted to specific programs	974,283	1,016,659	974,283	1,016,659
Other	48,261	134,907	48,261	134,907
Total revenues	2,885,906	2,977,942	2,885,906	2,977,942
Expenses:				
General government	387,901	386,789	387,901	386,789
Public safety	1,184,295	1,122,868	1,184,295	1,122,868
Transportation	121,581	94,160	121,581	94,160
Environmental protection	613,153	630,579	613,153	630,579
Economic and physical development	88,090	32,494	88,090	32,494
Cultural and recreation	80,864	105,290	80,864	105,290
Farmers Day	27,593	21,969	27,593	21,969
Interest on long-term debt	154,061	133,183	154,061	133,183
Total expenses	2,657,538	2,527,332	2,657,538	2,527,332
Increase in net position	228,368	450,610	228,368	450,610
Net position, July 1	3,015,507	2,564,897	3,015,507	2,564,897
Net position, June 30	\$ 3,243,875	\$ 3,015,507	\$ 3,243,875	\$ 3,015,507

Management Discussion and Analysis
Town of China Grove

Governmental activities. Governmental activities increased the Town's net position by \$228,368, thereby accounting for 100% of total growth in the net position of the Town of China Grove. Though a recession affected the Town, the increase in net position was the result of a concerted effort to control costs and manage expenditures to minimize the impact of the recession on its citizens.

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, unassigned 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 \$2,113,317 while total fund balance reached \$2,671,390. 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 66% of total General Fund expenditures, while total fund balance represents 84% of that same amount.

At June 30, 2014, the governmental funds of the Town reported a combined fund balance of \$2,680,410, an 8% increase over last year. This is the result of a net change in fund balance of \$202,799.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget six times. 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.

The Town's expenditures were increased to cover the costs of replacing the roof and the generator at the Town Hall/Fire Department, the purchase of garbage cans, and to move the phone server to the New Town Hall. 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.

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, 2014, totals \$3,332,174 (net of accumulated depreciation). These assets include buildings, roads and other infrastructure, land, machinery and equipment, and vehicles.

- The Town replaced the roof on the Town Hall/Fire Department, which wasn’t replaced during the renovation process.
- The Town also replaced the generator at the Fire Department, this fiscal year.
- Purchased a new vehicle for the Police Department and a new Public Works Truck.

Town of China Grove’s Capital Assets (net of depreciation)

Figure 4

	Governmental Activities		Total	
	2014	2013	2014	2013
Land	\$ 50,912	\$ 50,912	\$ 50,912	\$ 50,912
Buildings and system	2,310,774	2,363,187	2,310,774	2,363,187
Machinery and equipment	340,124	351,909	340,124	351,909
Infrastructure	573,899	586,213	573,899	586,213
Improvements other than buildings	56,465	62,206	56,465	62,206
Total	\$ 3,332,174	\$ 3,414,427	\$ 3,332,174	\$ 3,414,427

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, 2014, the Town had no bonded debt.

The Town’s total debt decreased \$527,544 during the past fiscal year. The decrease in long-term debt is due to the fact that the Town of China Grove has made all scheduled debt service payments for the year.

Management Discussion and Analysis
Town of China Grove

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of China Grove is \$17,933,791. The Town has \$0 in bonds authorized but un-issued at June 30, 2014.

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 average unemployment rate is 6.9% which is the same as the State unemployment rate. Rowan County is ranked 41st in the State.
- Occupancy rates on office and retail space. The Down Town 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 has continued on the biotechnology research campus in Kannapolis, North Carolina, with a steady increase in hi-tech jobs and some spin-off employment. This site is approximately 5 miles from the Town of China Grove.

Budget Highlights for the Fiscal Year Ending June 30, 2015

Governmental Activities: Operating revenues in the General Fund have remained fairly consistent over the past several years. The tax rate will increase to \$.56 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 \$1,580,800. This is 47% 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 \$935,500 or 28% of the total General Fund Revenues. Combined, these three revenue sources account for approximately 74% of the General Fund Revenues.

This coming years General Fund budget is approximately \$67,666 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 Fiscal year did require a tax increase of \$.02, and no additional fees were assessed. This Budget will see limited capital outlay for this fiscal year.

Management Discussion and Analysis
Town of China Grove

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 four 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:

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Town of China Grove
Finance Officer
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China Grove, NC 28023
mbopp@chinagrovec.gov

Phone (704) 857-2466
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TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2014

Exhibit 1

	Governmental Activities	Total
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,323,281	\$ 2,323,281
Taxes receivable (net)	62,602	62,602
Accrued interest receivable on taxes	14,800	14,800
Accounts receivable	11,620	11,620
Debt reimbursement receivable from City of Salisbury-current portion	386,476	386,476
Prepaid items	6,035	6,035
Due from other governments	295,048	295,048
Restricted cash and cash equivalents	265,442	265,442
Total current assets	3,365,304	3,365,304
Non-current assets:		
Debt reimbursement receivable from City of Salisbury-due in more than one year	2,532,221	2,532,221
Capital assets:		
Land, non-depreciable improvements, and construction in progress	50,912	50,912
Other capital assets, net of depreciation	3,281,262	3,281,262
Total capital assets	3,332,174	3,332,174
Total assets	9,229,699	9,229,699
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	64,919	64,919
Accrued interest payable	52,002	52,002
Unearned revenue-Farmer's Day	11,810	11,810
Developer deposit	144,287	144,287
Current portion of long-term liabilities	622,409	622,409
Long-term liabilities:		
Due in more than one year	5,090,397	5,090,397
Total liabilities	5,985,824	5,985,824
Net Position		
Invested in capital assets, net of related debt	1,147,182	1,147,182
Restricted for:		
Stabilization by State Statute	306,668	306,668
Other functions	135,390	135,390
Unrestricted	1,654,635	1,654,635
Total net position	\$ 3,243,875	\$ 3,243,875

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary government:						
Governmental Activities:						
General government	\$ 387,901	\$ -	\$ 80,496	\$ -	\$ (307,405)	\$ (307,405)
Public Safety	1,228,362	3,306	82,930	-	(1,142,126)	(1,142,126)
Transportation	121,581	-	118,278	-	(3,303)	(3,303)
Environmental protection	613,153	-	2,534	-	(610,619)	(610,619)
Economic and physical development	88,090	-	-	-	(88,090)	(88,090)
Cultural and recreation	80,864	10,825	-	-	(70,039)	(70,039)
Farmers Day	27,593	-	-	-	(27,593)	(27,593)
Interest on long-term debt	154,061	-	-	-	(154,061)	(154,061)
Total governmental activities (See Note 1)	\$ 2,701,605	\$ 14,131	\$ 284,238	\$ -	(2,403,236)	(2,403,236)
General revenues:						
Taxes:						
Property taxes, levied for general purpose					1,564,993	1,564,993
Grants and contributions not restricted to specific programs					974,283	974,283
Farmers Day					30,882	30,882
Unrestricted investment earnings					9,999	9,999
Insurance recovery					13,760	13,760
Miscellaneous					37,687	37,687
Total general revenues and transfers					2,631,604	2,631,604
Change in net assets					228,368	228,368
Net assets, beginning					3,015,507	3,015,507
Net assets, ending					\$ 3,243,875	\$ 3,243,875

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, 2014

Exhibit 3

	General Fund	Capital Reserve Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,314,261	\$ 9,020	\$ 2,323,281
Restricted cash	265,442	-	265,442
Taxes receivable (net)	62,602	-	62,602
Account receivable	11,620	-	11,620
Prepaid items	6,035	-	6,035
Due from other governments	295,048	-	295,048
Debt reimbursement receivable from City of Salisbury	2,918,697	-	2,918,697
Total assets	5,873,705	9,020	5,882,725
Liabilities			
Accounts payable and accrued liabilities	64,919	-	64,919
Unearned revenue-Farmer's Day	11,810	-	11,810
Developer deposit	144,287	-	144,287
Total liabilities	221,016	-	221,016
Deferred Inflows of Resources			
Property taxes receivable	62,602	-	62,602
Prepaid taxes	-	-	-
Debt reimbursement from City of Salisbury	2,918,697	-	2,918,697
Total deferred inflows of resources	2,981,299	-	2,981,299
Fund Balances			
Non Spendable			
Prepaid expenses	6,035	-	6,035
Restricted			
Stabilization by State statute	306,668	-	306,668
Streets	126,370	-	126,370
Capital Reserve	-	9,020	9,020
Assigned			
Subsequent year's expenditures	119,000	-	119,000
Unassigned	2,113,317	-	2,113,317
Total fund balances	2,671,390	9,020	2,680,410
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,873,705	\$ 9,020	

TOWN OF CHINA GROVE, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

Exhibit 3

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total Fund Balance, Governmental Funds		2,680,410
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Gross capital assets at historical cost	5,982,556	
Accumulated depreciation	<u>(2,650,382)</u>	3,332,174
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.		14,800
Liabilities for earned revenues considered deferred inflows of resources in fund statements		2,981,299
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		(5,712,806)
Other long-term liabilities (accrued interest), are not due and payable in the current period and therefore are not reported in the funds.		<u>(52,002)</u>
Net assets of governmental activities		<u><u>\$ 3,243,875</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

Exhibit 4

	General Fund	Capital Reserve Fund	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 1,581,369	\$ -	\$ 1,581,369
Unrestricted intergovernmental	974,283	-	974,283
Restricted intergovernmental	670,714	-	670,714
Permits and fees	14,131	-	14,131
Investment earnings	9,997	1	9,998
Miscellaneous	68,571	-	68,571
Total Revenues	3,319,065	1	3,319,066
Expenditures			
Current			
General Government	394,215	-	394,215
Public safety	1,137,007	-	1,137,007
Transportation	108,246	-	108,246
Environmental protection	615,033	-	615,033
Economic and physical development	88,090	-	88,090
Cultural and recreational	103,350	-	103,350
Debt Service			
Principal retirement	585,314	-	585,314
Interest	156,542	-	156,542
Capital outlay	-	-	-
Total expenditures	3,187,797	-	3,187,797
Excess (deficiency) of revenues over expenditures	131,268	1	131,269
Other financing sources (uses):			
Proceeds from borrowing	57,770	-	57,770
Insurance recovery	13,760	-	13,760
Total other financing sources (uses)	71,530	-	71,530
Net change in fund balance	202,798	1	202,799
Fund balances, beginning	2,468,592	9,019	2,477,611
Fund balance, ending	\$ 2,671,390	\$ 9,020	\$ 2,680,410

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

Exhibit 4

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

Net changes in fund balances - total governmental funds	\$	202,799
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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	\$	134,281	
Loss on retirement of capital assets		(44,067)	
Depreciation expense for government assets		<u>(172,468)</u>	(82,254)

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

Change in unavailable revenue for tax revenues		(16,375)	
Change in unearned revenue for debt reimbursement-City of Salisbury		<u>(386,476)</u>	(402,851)

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.

Net long-term debt issued		(57,770)	
Principal payments on long-term debt		585,314	
Decrease in accrued interest payable		<u>2,482</u>	530,026

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			(9,734)
Net pension obligation			<u>(9,618)</u>

Total changes in net assets of governmental activities			<u>\$ 228,368</u>
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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, 2014

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
Revenues				
Ad valorem taxes	\$ 1,465,900	\$ 1,465,900	\$ 1,581,369	\$ 115,469
Unrestricted intergovernmental	912,500	912,500	974,283	61,783
Restricted intergovernmental	660,000	660,000	670,714	10,714
Permits and fees	13,500	13,500	14,131	631
Investment earnings	-	-	9,997	9,997
Miscellaneous	35,000	35,000	68,571	33,571
Total revenues	3,086,900	3,086,900	3,319,065	232,165
Expenditures				
Current				
General government	501,900	423,900	394,215	29,685
Public safety	1,181,700	1,223,700	1,137,007	86,693
Transportation	115,900	115,900	108,246	7,654
Environmental protection	646,300	702,050	615,033	87,017
Economic and physical development	35,600	89,884	88,090	1,794
Cultural and recreational	105,200	110,900	103,350	7,550
Debt service				
Principal retirement	537,400	582,300	585,314	(3,014)
Interest	85,600	160,700	156,542	4,158
Total expenditures	3,209,600	3,409,334	3,187,797	221,537
Revenues over (under) expenditures	(122,700)	(322,434)	131,268	453,702
Other financing sources (uses):				
Proceeds from borrowing	75,000	75,000	57,770	(17,230)
Insurance recovery	-	-	13,760	13,760
Total other financing sources (uses)	75,000	75,000	71,530	(3,470)
Fund balance appropriated	47,700	247,434	-	(247,434)
Net change in fund balance	\$ -	\$ -	202,798	\$ 202,798
Fund balance, beginning			2,468,592	
Fund balance, ending			\$ 2,671,390	

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

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 that 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 position 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 Town does not currently have any business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues 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, proprietary, and fiduciary – are presented, when applicable. 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. Non-operating 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 environmental protection.

Capital Project - 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, 2014

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 Financial Statements- The government-wide financial statements are reported using the economic resources measurement focus. The government-wide 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.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, 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, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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. 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 is both restricted and unrestricted net position 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.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

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. All annual appropriations lapse at the fiscal-year end. A project ordinance is adopted for the Capital Reserve Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than 10%. All amendments must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, 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

Money in a Police drug account of \$4,485 is classified as restricted cash because its use is restricted for specific purposes. The Town has \$144,287 held in a separate account that is classified as restricted cash because it will be returned to a developer, including interest earned, upon completion of a project in the Town. Powell Bill funds of \$116,670 are classified as restricted cash because they 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.

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2014

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.

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:

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has no items that meet these criteria. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has only three items that meet the criterion for this category - prepaid taxes, property taxes receivable, and debt reimbursement for City of Salisbury.

9. Long-Term Obligations

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

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

10. 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.

11. Net Position/Fund Balances

Net Position

Net position in government-wide financial statements is classified as investment in capital assets; restricted; and unrestricted. Restricted net position represents 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:

Non Spendable 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 has some prepaid items that are classified as Non Spendable.

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

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

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

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 Net Position of Individual Funds: None.

C. Excess of Expenditures Over Appropriations: None.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

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, 2014, the Town's deposits had a carrying amount of \$2,450,883 and a bank balance of \$2,657,454. Of the bank balance, \$535,075 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2014, the Town's petty cash fund totaled \$450.

2. Investments

At June 30, 2014, the Town of China Grove had \$137,390 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.

3. Receivables – Allowance for Doubtful Accounts

The amount for taxes receivable presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2014 is net of an allowance for doubtful accounts of \$13,720.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 50,912	\$ -	\$ -	\$ 50,912
Construction in progress	-	-	-	-
Total capital assets not being depreciated	50,912	-	-	50,912
Capital assets being depreciated:				
Buildings	2,740,150	46,456	63,935	2,722,671
Equipment	2,605,977	87,825	244,034	2,449,768
Infrastructure	615,680	-	-	615,680
Other improvements	143,525	-	-	143,525
Total capital assets being depreciated	6,105,332	134,281	307,969	5,931,644
Less accumulated depreciation for:				
Buildings	376,963	54,803	19,869	411,897
Equipment	2,254,068	99,610	244,034	2,109,644
Infrastructure	29,467	12,314	-	41,781
Other improvements	81,319	5,741	-	87,060
Total accumulated depreciation	2,741,817	\$ 172,468	\$ 263,903	2,650,382
Total capital assets being depreciated, net	3,363,515			3,281,262
Governmental activity capital assets, net	\$ 3,414,427			\$ 3,332,174

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

General government	\$ 29,252
Public safety	97,986
Transportation	13,334
Environmental protection	26,789
Cultural and recreation	5,107
Total depreciation expense	\$ 172,468

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2014

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 7.07% and 7.28%, 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, 2014, 2013, and 2012 were \$57,818, \$53,460, and \$56,449, 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, 2013 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	13
Total	13

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, 2014

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, 2013 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	\$ 11,767
Interest on net pension obligation	3,414
Adjustment to annual required contribution	<u>(5,563)</u>
Annual pension cost	9,618
Contributions made	<u>-</u>
Increase (decrease) in net pension obligation	9,618
Net pension obligation beginning of year	<u>68,281</u>
Net pension obligation end of year	<u><u>\$ 77,899</u></u>

For Year Ended June 30	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
2012	\$7,876	0.00%	\$58,667
2013	\$9,614	0.00%	\$68,281
2014	\$9,618	0.00%	\$77,899

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

4. Funding Status and Funding Progress- As of December 31, 2013, 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 \$54,713. The covered payroll (annual payroll of active employees covered by the plan) was \$427,633, and the ratio of the UAAL to the covered payroll was 12.79 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, 2014 were \$20,103, which consisted of \$20,103 from the Town and \$0 from the law enforcement officers.

d. Firefighter'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 Firefighter'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 Firefighter'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 Firefighter's Pension 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, 2014

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 Outflows and Inflows of Resources

Deferred inflows of resources at year-end is composed of the following:

	Unavailable Revenue	Unearned Revenue
Prepaid taxes	\$ -	\$ -
Taxes receivable	62,602	-
Debt reimbursement from City of Salisbury	2,918,697	-
	\$2,981,299	\$ -

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 \$117,000. The Town does not carry an individual bond on a tax collector because it outsources its tax collection to Rowan County. 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, 2014

4. Reconciliation of Powell Bill Expenditures

The following is a reconciliation of Powell Bill expenditures:

Per financial statements-transportation	\$ 108,246
Prior year accounts payable included on report	<u>36,948</u>
Per Powell Bill Expenditures Report	<u><u>\$ 145,194</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, 2014:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 44,485	\$ 21,105	\$ 23,380
Total	<u>\$ 44,485</u>	<u>\$ 21,105</u>	<u>\$ 23,380</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014 are as follows:

Year Ending June 30	
2015	\$ 12,832
2016	<u>7,664</u>
Total minimum lease payments	20,496
Less amount representing interest	<u>2,145</u>
Present value of the minimum lease payments	<u><u>\$ 18,351</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2014

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). The funds were used 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 be repaid in 30 annual installments beginning December 2013. The interest rate for the loans is 3.5%.

The future minimum payments due on the loans as of June 30, 2014 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2015	\$ 42,953	\$ 73,134
2016	44,456	71,631
2017	46,012	70,075
2018	47,623	68,464
2019	49,290	66,797
2020-2024	273,565	306,870
2025-2029	324,909	255,526
2030-2034	385,890	194,545
2035-2039	458,316	122,119
2040-2043	416,528	36,494
	<u>\$2,089,542</u>	<u>\$1,265,655</u>

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. Because these debt payments are being reimbursed by the City of Salisbury, the principal amount is included in "Debt reimbursement receivable from City of Salisbury" on Exhibit 1 and Exhibit 3.

The future minimum payments of the installment purchase as of June 30, 2014 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2015	\$ 176,987	\$ 13,805
2016	176,987	9,203
2017	176,986	4,602
	<u>\$ 530,960</u>	<u>\$ 27,610</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

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. Because these debt payments are being reimbursed by the City of Salisbury, the principal amount is included in "Debt reimbursement receivable from City of Salisbury" on Exhibit 1 and Exhibit 3.

The future minimum payments of the installment purchase as of June 30, 2014 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 83,907	\$ 19,408
2016	83,907	17,251
2017	83,907	15,095
2018	83,907	12,938
2019	83,907	10,782
2020-2023	335,626	21,564
	<u>\$ 755,161</u>	<u>\$ 97,038</u>

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. Because these debt payments are being reimbursed by the City of Salisbury, the principal amount is included in "Debt reimbursement receivable from City of Salisbury" on Exhibit 1 and Exhibit 3.

The future minimum payments of the installment purchase as of June 30, 2014 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 125,583	\$ 37,631
2016	125,583	34,736
2017	125,583	31,842
2018	125,583	28,947
2019	125,583	26,052
2020-2024	627,914	86,841
2025-2027	376,747	17,368
	<u>\$1,632,576</u>	<u>\$ 263,417</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2014

f. Installment Purchase

The Town borrowed \$32,000 from a local financial institution to purchase a police car during the year ended June 30, 2013. The agreement calls for quarterly payments beginning February 2013. The loan has an interest rate of 3.21%.

The future minimum payments of the installment purchase as of June 30, 2014 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2015	\$ 10,836	\$ 403
2016	5,546	68
	\$ 16,382	\$ 471
	\$ 16,382	\$ 471

g. Installment Purchase

The Town borrowed \$57,770 from a local financial institution to purchase a police car and a public works truck during the year ended June 30, 2014. The agreement calls for 12 quarterly payments beginning December 2013. The loan has an interest rate of 3.252%.

The future minimum payments of the installment purchase as of June 30, 2014 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2015	\$ 19,094	\$ 1,196
2016	19,721	568
2017	5,029	41
	\$ 43,844	\$ 1,805
	\$ 43,844	\$ 1,805

h. Installment Debt Agreement

As part of the agreement to transfer the water and sewer system to the City of Salisbury, the Town of China Grove agreed to pay seven annual installments of \$120,000 to the City of Salisbury beginning in the 2011-2012 fiscal year, a total of \$840,000. The agreement does not call for interest to be paid or state an interest rate, therefore the Town is treating the entire payment as principal. The balance due at June 30, 2014 was \$480,000. This commitment is being shown as a long-term liability in the General Fund. The payments are being treated as debt service expense in the General Fund.

The future minimum payments of the installment purchase as of June 30, 2014 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2015	\$ 120,000	-
2016	120,000	-
2017	120,000	-
2018	120,000	-
	\$ 480,000	-
	\$ 480,000	-

At June 30, 2014 the Town of China Grove, North Carolina had a legal debt margin of \$17,933,791.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

i. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 6,066,775	\$ 57,770	\$ 576,080	\$ 5,548,465	\$ 579,359
Capitalized leases	28,076	-	9,234	18,842	11,050
Compensated absences	57,866	9,734	-	67,600	32,000
Net pension benefit	68,281	9,618	-	77,899	-
Governmental activities long-term liabilities	<u>\$ 6,220,998</u>	<u>\$ 77,122</u>	<u>\$ 585,314</u>	<u>\$ 5,712,806</u>	<u>\$ 622,409</u>

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

For the fiscal year ended June 30, 2014, the Town of China Grove has recognized on-behalf of payments for pension contributions made by the State as revenue and an expenditure of \$9,301 for the 26 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.

D. Net Investment in Capital Assets

Capital assets	\$3,332,174
Less:	
Capital leases	18,842
Town Hall/Fire Dept USDA loans	2,089,542
Loan for police car	16,382
Loan for police car and public works truck	<u>60,226</u>
Net investment in capital assets	<u>\$1,147,182</u>

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	\$2,671,390
Less:	
Prepaid items	6,035
Stabilization by State Statute	306,668
Streets-Powell	126,370
Appropriated Fund Balance in 2013-14 budget	119,000
Working Capital/Fund Balance Policy	<u>-</u>
Remaining Fund Balance	<u>\$2,113,317</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

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, 2014, 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, 2014. 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

Management has evaluated the subsequent events through September 30, 2014, 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)
12/31/08	-	\$ 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%
12/31/11	-	43,736	43,736	0%	449,588	9.73%
12/31/12	-	55,204	55,204	0%	459,243	12.02%
12/31/13	-	54,713	54,713	0%	427,633	12.79%

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>
2009	\$ 6,497	0.0%
2010	7,407	0.0%
2011	7,527	0.0%
2012	8,366	0.0%
2013	10,332	0.0%
2014	12,266	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	12/31/2013
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	17 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, 2014

	Budget	Actual	Variance Positive (Negative)
Revenues			
Ad valorem taxes			
Taxes	\$ 1,458,400	\$ 1,568,234	\$ 109,834
Penalties and interest	7,500	13,135	5,635
Total	<u>1,465,900</u>	<u>1,581,369</u>	<u>115,469</u>
Unrestricted intergovernmental			
Local option sales taxes	660,000	676,187	16,187
Telecommunications sales tax	53,000	50,897	(2,103)
Utility franchise tax	135,000	165,689	30,689
Piped natural gas	11,500	13,502	2,002
Video franchise fee	20,000	23,493	3,493
Cable TV franchise fee	5,000	5,543	543
Beer and wine tax	16,000	18,140	2,140
ABC profit distribution	12,000	20,832	8,832
Total	<u>912,500</u>	<u>974,283</u>	<u>61,783</u>
Restricted intergovernmental			
Powell Bill allocation	115,900	118,278	2,378
Fire tax	9,000	5,343	(3,657)
Fire tax supplement	7,700	7,740	40
Salisbury/Rowan Schools-SRO	35,600	51,536	15,936
Debt reimbursement from City of Salisbury	467,000	466,972	(28)
Public safety grants	7,500	9,010	1,510
On-behalf of payments - Fire	15,000	9,301	(5,699)
Solid waste disposal	2,300	2,534	234
Total	<u>660,000</u>	<u>670,714</u>	<u>10,714</u>
Permits and fees			
Police fines and citations	5,000	3,306	(1,694)
Community building rent	8,500	10,825	2,325
Total	<u>13,500</u>	<u>14,131</u>	<u>631</u>
Investment earnings	-	9,997	9,997
Miscellaneous			
Farmers Day revenue	28,500	30,882	2,382
Sale of materials	2,500	6,535	4,035
Contribution revenue	2,000	3,000	1,000
Other	2,000	28,154	26,154
Total	<u>35,000</u>	<u>68,571</u>	<u>33,571</u>
Total revenues	<u>\$ 3,086,900</u>	<u>\$ 3,319,065</u>	<u>\$ 232,165</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, 2014

	Budget	Actual	Variance Positive (Negative)
Expenditures			
General government			
Governing body			
Salaries and wages	\$ 6,800	\$ 6,720	\$ 80
Payroll tax	600	558	42
Travel and schools	600	-	600
Advertising	300	-	300
Membership and dues	7,000	7,164	(164)
Miscellaneous	500	1,107	(607)
Community appearance	5,000	2,719	2,281
Elections	2,500	2,214	286
Grant match bus service	7,500	6,862	638
Donations	7,000	7,264	(264)
	<u>37,800</u>	<u>34,608</u>	<u>3,192</u>
Administration			
Salaries and wages	172,600	160,787	11,813
Salaries and wages-overtime	1,200	2,402	(1,202)
Payroll tax	20,500	20,154	346
Employee benefits	30,100	26,100	4,000
Workers compensation	800	637	163
Professional fees-accounting	22,000	20,500	1,500
Professional fees-legal	6,000	5,781	219
Office supplies	1,200	1,109	91
Materials and supplies	1,000	1,128	(128)
Contracted services	3,500	4,224	(724)
Technical support	12,000	11,442	558
Travel and schools	7,000	2,217	4,783
Telephone and postage	6,500	5,493	1,007
Utilities	12,000	9,963	2,037
Printing and codification	2,000	1,908	92
Repair and maintenance	1,000	5,304	(4,304)
Repair and maintenance-building	-	5,492	(5,492)
Bank service fees	100	19	81
Memberships and dues	200	165	35
Miscellaneous	5,000	2,531	2,469
Leases and maintenance	800	279	521
Insurance	14,600	14,590	10
Rowan County tax services	23,000	18,873	4,127
Capital outlay	43,000	38,509	4,491
	<u>386,100</u>	<u>359,607</u>	<u>26,493</u>
Total general government	<u>\$ 423,900</u>	<u>\$ 394,215</u>	<u>\$ 29,685</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, 2014

	Budget	Actual	Variance Positive (Negative)
Public safety			
Police department			
Salaries and wages	\$ 419,300	\$ 384,706	\$ 34,594
School resource officers	33,300	38,691	(5,391)
Salaries and wages-overtime	1,500	3,585	(2,085)
Payroll tax	34,700	35,036	(336)
Employee benefits	123,000	103,834	19,166
Workers compensation	16,000	15,163	837
Materials and supplies	10,000	8,462	1,538
Fuel and oil	41,000	37,189	3,811
Uniforms	4,500	4,293	207
Weapons	16,500	16,108	392
Contract services	4,800	5,154	(354)
Technical support	9,000	7,833	1,167
Travel and schools	2,000	2,888	(888)
Telephone and postage	2,200	1,776	424
Cell phones and pagers	9,000	8,807	193
Utilities	8,400	8,109	291
Repairs and maintenance	30,000	17,275	12,725
Repairs and maintenance-building	5,000	4,743	257
Memberships and dues	300	230	70
Miscellaneous	1,500	2,084	(584)
Insurance	14,200	15,177	(977)
Capital outlay	30,000	32,430	(2,430)
Total police department	<u>\$ 816,200</u>	<u>\$ 753,573</u>	<u>\$ 62,627</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, 2014

	Budget	Actual	Variance Positive (Negative)
Fire department			
Salaries and wages-regular	\$ 133,500	\$ 126,011	\$ 7,489
Salaries and wages-overtime	1,000	1,554	(554)
Salaries and wages-part time	9,500	11,558	(2,058)
Salaries and wages-per call	6,000	6,543	(543)
Payroll tax	12,000	12,121	(121)
Employee benefits	39,000	30,444	8,556
Workers compensation	6,800	6,338	462
Food and provisions	500	459	41
Medical supplies	1,900	3,829	(1,929)
Material and supplies	10,000	13,938	(3,938)
Fuel and oil	10,000	11,884	(1,884)
Uniforms	3,500	3,206	294
Turn out gear	6,000	2,674	3,326
Contracted services	1,200	1,836	(636)
Travel and schools	1,000	30	970
Telephone and postage	2,000	1,680	320
Cell phones and pagers	3,600	4,422	(822)
Utilities	11,000	9,974	1,026
Repairs and maintenance	45,000	48,209	(3,209)
Repairs and maintenance-buildings	26,000	20,308	5,692
Memberships and dues	900	1,099	(199)
Miscellaneous	2,000	1,793	207
Insurance	13,000	13,868	(868)
Fire pension fund	1,100	-	1,100
Fire on-behalf of payments	15,000	9,301	5,699
Capital outlay	46,000	40,355	5,645
	<u>407,500</u>	<u>383,434</u>	<u>24,066</u>
Total fire department			
	<u>1,223,700</u>	<u>1,137,007</u>	<u>86,693</u>
Total public safety			
Transportation			
Streets and highways			
Professional fees	1,000	-	1,000
Repairs and maintenance	10,000	12,247	(2,247)
Drainage	5,000	-	5,000
Miscellaneous	2,000	-	2,000
New equipment	-	404	(404)
Paving	95,900	95,595	305
Right of way	2,000	-	2,000
	<u>115,900</u>	<u>108,246</u>	<u>7,654</u>
Total transportation			

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, 2014

	Budget	Actual	Variance Positive (Negative)
Environmental protection			
Public works			
Employee wages-regular	\$ 162,000	\$ 155,259	\$ 6,741
Employee wages-overtime	3,000	3,612	(612)
Payroll taxes	12,500	13,078	(578)
Employee benefits	38,500	42,787	(4,287)
Workers compensation	10,000	9,092	908
Materials and supplies	17,000	19,676	(2,676)
Fuel and oil	20,000	19,167	833
Uniforms	1,500	1,543	(43)
Safety equipment and materials	500	133	367
Contracted services	1,200	1,104	96
Travel and schools	500	150	350
Telephone and postage	1,900	1,655	245
Cell phones and pagers	2,700	2,175	525
Utilities	5,800	5,109	691
Street lights	45,000	45,259	(259)
Repairs and maintenance	30,000	17,651	12,349
Repairs and maintenance-buildings	1,000	170	830
Memberships and dues	200	110	90
Miscellaneous	500	90	410
Equipment rental	1,500	173	1,327
Insurance	10,000	8,967	1,033
Garbage and recycling contract	212,000	171,870	40,130
Landfill charges	21,000	22,579	(1,579)
Stormwater expenses	30,000	525	29,475
Capital outlay	73,750	73,099	651
Total environmental protection	702,050	615,033	87,017
Economic and physical development			
Planning			
Professional fees - planner	25,000	25,000	-
Contracted services	4,500	3,642	858
Telephone and postage	100	39	61
Advertising	1,500	661	839
Miscellaneous	-	18	(18)
Tourism and economic development	4,500	4,446	54
APFO refund	54,284	54,284	-
Total economic and physical development	\$ 89,884	\$ 88,090	\$ 1,794

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, 2014

	Budget	Actual	Variance Positive (Negative)
Cultural and recreational			
Recreation			
Contracted services	\$ 31,000	\$ 30,669	\$ 331
Christmas activities	5,300	7,304	(2,004)
Community building expenses	12,000	13,973	(1,973)
Utilities	11,000	7,404	3,596
Miscellaneous	300	-	300
Insurance	6,000	4,564	1,436
Playground expense	13,700	9,054	4,646
Little League	3,100	2,789	311
Total recreation	<u>82,400</u>	<u>75,757</u>	<u>6,643</u>
Farmers Day			
Miscellaneous	2,400	3,933	(1,533)
Donations	5,000	200	4,800
Administrative costs	-	442	(442)
Entertainment	7,800	9,750	(1,950)
Sound equipment & stage	6,500	5,800	700
Fireworks	2,000	3,500	(1,500)
T-shirts	2,200	1,859	341
Rentals	1,550	1,160	390
Rowan Septic	1,000	949	51
P.O. Box rental	50	-	50
Total Farmers Day	<u>28,500</u>	<u>27,593</u>	<u>907</u>
Total cultural and recreational	<u>110,900</u>	<u>103,350</u>	<u>7,550</u>
Debt service			
Principal retirement	582,300	585,314	(3,014)
Interest	160,700	156,542	4,158
Total debt service	<u>743,000</u>	<u>741,856</u>	<u>1,144</u>
Total expenditures	<u>3,409,334</u>	<u>3,187,797</u>	<u>221,537</u>
Revenues over (under) expenditures	<u>\$ (322,434)</u>	<u>\$ 131,268</u>	<u>\$ 453,702</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, 2014

	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses)			
Proceeds from borrowing	\$ 75,000	\$ 57,770	\$ (17,230)
Insurance recovery	-	13,760	13,760
	75,000	71,530	(3,470)
Total other financing sources (uses)			
Fund balance appropriated	247,434	-	(247,434)
Net change in fund balance	\$ -	202,798	\$ 202,798
Fund balances			
Fund balance, beginning		2,468,592	
Fund balance, ending		\$ 2,671,390	

TOWN OF CHINA GROVE, NORTH CAROLINA
 CAPITAL PROJECT - CAPITAL RESERVE FUND
 STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
 From Inception and For the Year Ended June 30, 2014

	Budget	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues					
Interest	\$ 15,000	\$ 18,419	\$ 1	\$ 18,420	\$ 3,420
Total revenues	15,000	18,419	1	18,420	3,420
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	\$ -	\$ 9,019	\$ 1	\$ 9,020	\$ 9,020

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2014

Fiscal Year	Uncollected Balance June 30, 2013	Additions	Collections and Credits	Uncollected Balance June 30, 2014
2013-2014	\$ -	\$ 1,561,300	\$ 1,524,086	\$ 37,214
2012-2013	59,047	-	44,726	14,321
2011-2012	16,362	-	7,320	9,042
2010-2011	6,412	-	1,827	4,585
2009-2010	3,636	-	1,134	2,502
2008-2009	2,343	-	336	2,007
2007-2008	2,166	-	191	1,975
2006-2007	1,302	-	48	1,254
2005-2006	2,007	-	53	1,954
2004-2005	1,614	-	146	1,468
2003-2004	1,374	-	1,374	-
	<u>\$ 96,263</u>	<u>\$ 1,561,300</u>	<u>\$ 1,581,241</u>	76,322

Less allowance for uncollectible accounts:

General Fund

13,720

Ad valorem taxes receivable-net

62,602

Reconcilement with revenues:

Ad valorem taxes - General Fund

1,581,369

Reconciling items

Interest collected

(13,135)

Discounts allowed

11,110

Taxes written off

1,897

Total collections and credits

\$ 1,581,241

TOWN OF CHINA GROVE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Year Ended June 30, 2014

	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	\$291,401,107	\$.54	\$1,573,567	\$ 1,395,304	\$ 178,263
Penalties	-		391	391	
Total	<u>291,401,107</u>		<u>1,573,958</u>	<u>1,395,695</u>	<u>178,263</u>
Discoveries					
Current year taxes	9,308	.54	50	50	
Penalties	-		-	-	-
Total	<u>9,308</u>		<u>50</u>	<u>50</u>	<u>-</u>
Abatements	<u>2,353,300</u>		<u>(12,708)</u>	<u>(1,902)</u>	<u>(10,806)</u>
Total property valuation	<u>\$293,763,715</u>				
Net levy			1,561,300	1,393,843	167,457
Uncollected taxes at June 30, 2014			<u>(37,214)</u>	<u>(33,253)</u>	<u>(3,961)</u>
Current year's taxes collected			<u>\$1,524,086</u>	<u>\$ 1,360,590</u>	<u>\$ 163,496</u>
Current levy collection percentage			<u>97.62%</u>	<u>97.61%</u>	<u>97.63%</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the 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, the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of the Town of China Grove, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statement, which collectively comprises the Town of China Grove's basic financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of China Grove's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the on the effectiveness of the Town of China Grove's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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. A significant deficiency is a deficiency or 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the following to be significant deficiencies in internal control.

Provide Oversight of the Preparation of Financial Statements

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

Monitoring Service Provider

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

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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sherrill & Smith, CPAs, PA

Salisbury, North Carolina
September 30, 2014