

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

**For the Fiscal Year Ended  
June 30, 2013**

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**

Table of Contents

June 30, 2013

<u>Exhibit</u>		<u>Page</u>
	<b>FINANCIAL SECTION:</b>	
	<b>Independent Auditor's Report</b>	1-3
	<b>Management's Discussion and Analysis</b>	4-13
	<b>Basic Financial Statements:</b>	
	Government-Wide Financial Statements:	
1	Statement of Net Position	14
2	Statement of Activities	15
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	16
3	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
4	Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
4	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
5	Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	20
	Notes to the Financial Statements	21-38
	<b>Required Supplemental Financial Data:</b>	
	Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress	39
	Law Enforcement Officers' Special Separation Allowance – Schedule of Employer Contributions	40
	Law Enforcement Officers' Special Separation Allowance – Notes to the Required Schedules	40

**Town of China Grove, North Carolina**

Table of Contents

June 30, 2013

	<u>Page</u>
<b>Individual Fund Statements and Schedules:</b>	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	41-47
Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Capital Reserve Fund	48
Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Town Hall/Fire Department Capital Project Fund	49
<b>Other Schedules:</b>	
Schedule of Ad Valorem Taxes Receivable – General Fund	50
Analysis of Current Tax Levy	51
<b>Compliance Section:</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Governmental Auditing Standards</u>	52-53
Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance and in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act	54-55
Schedule of Expenditures of Federal and State Awards	56
Schedule of Findings and Questioned Costs	57-59
Corrective Action Plan	60
Summary Schedule of Prior Audit Findings	61

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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 and each major fund of the Town of China Grove, North Carolina as of and for the year ended June 30, 2013, 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 and each major fund of the Town of China Grove, North Carolina as of June 30, 2013, 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 and the Other Post Employment Benefit and Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions on pages 4 through 13 and 39 and 40, respectively, 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 Town of China Grove's basic financial statements. The introductory information, combining and individual fund financial statements, budgetary schedules, and other schedules as well as the accompanying schedule of expenditures of federal and state awards as required by U.S. Office and Management and Budget Circular A-133, Audits of State and Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards 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 fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory information has not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2013 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  
October 28, 2013

## 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, 2013. 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

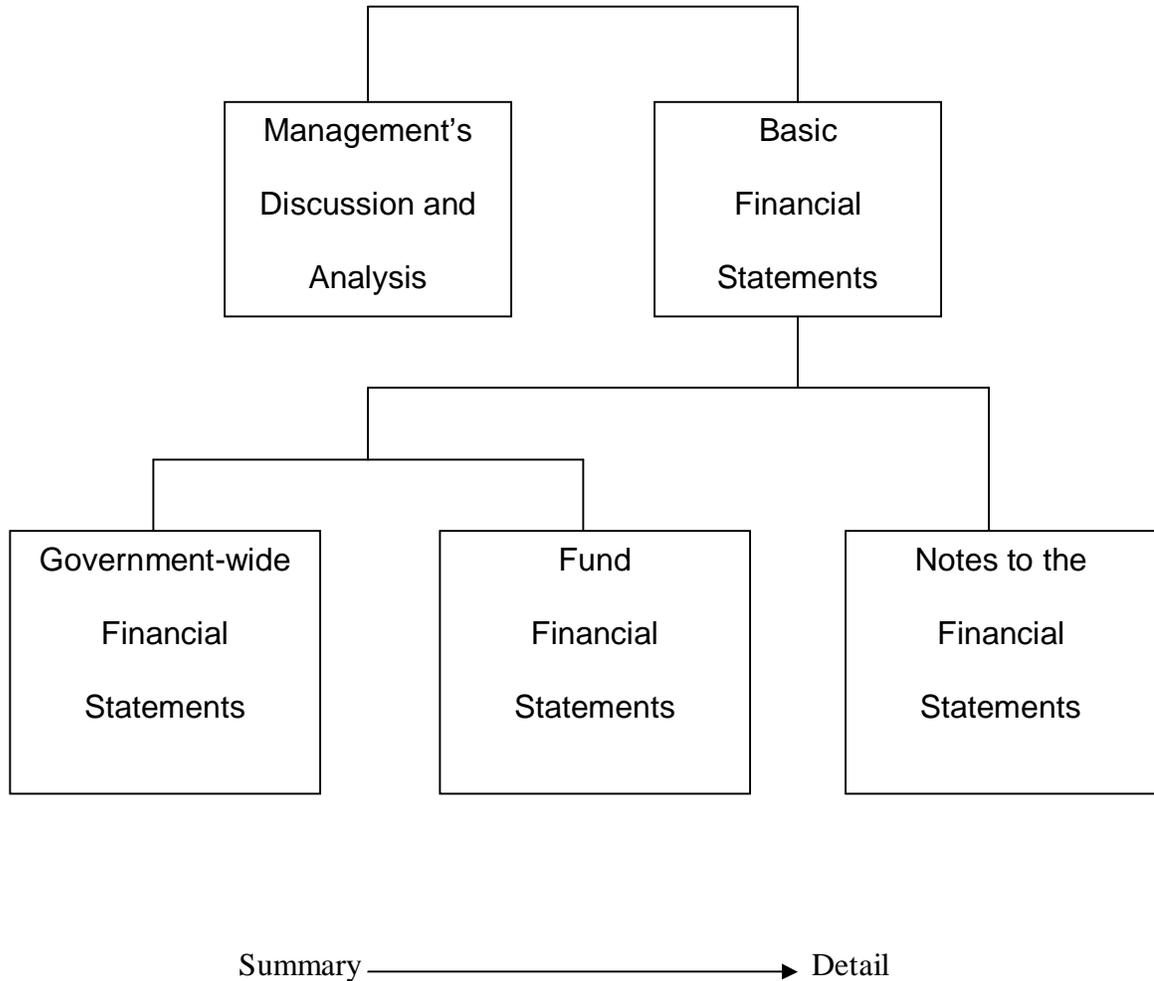
- The assets and deferred outflows of resources of the Town *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$3,015,507 (*net position*).
- The government's total net position increased by \$ 450,610.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$ 2,477,611 an increase of \$202,979 in comparison with the prior year. This increase is due to a decrease in total liabilities with the completion of the Fire Department/Town Hall renovations. Approximately 79% of this total amount, or \$ 1,968,132, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 1,963,497, which is 67% of total general fund expenditures for the fiscal year.
- The Town's total debt decreased \$ 208,169 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's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of China Grove.

### Required Components of Annual Financial Report

Figure 1



#### Basic Financial Statements

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

The next statements (Exhibits 3 through 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 three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

## Management Discussion and Analysis Town of China Grove

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

### **Government-wide Financial Statements**

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

The two government-wide statements report the Town's net 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	
	2013	2012	2013	2012
Current and other assets	\$ 3,065,991	\$ 3,063,354	\$ 3,065,991	\$ 3,063,354
Capital assets	6,333,124	6,259,392	6,333,124	6,259,392
<b>Total assets</b>	<b>9,399,115</b>	<b>9,322,746</b>	<b>9,399,115</b>	<b>9,322,746</b>
Long-term liabilities outstanding	6,220,998	6,417,929	6,220,998	6,417,929
Other liabilities	159,047	339,920	159,047	339,920
Deferred inflows of resources	3,563	-	3,563	-
<b>Total liabilities and deferred inflows of resources</b>	<b>6,383,608</b>	<b>6,757,849</b>	<b>6,383,608</b>	<b>6,757,849</b>
Net position:				
Net investment in capital assets	1,224,950	1,697,503	1,224,950	1,697,503
Restricted for:				
Restricted	461,015	675,553	461,015	675,553
Unrestricted	1,329,542	191,841	1,329,542	191,841
<b>Total net position</b>	<b>\$ 3,015,507</b>	<b>\$ 2,564,897</b>	<b>\$ 3,015,507</b>	<b>\$ 2,564,897</b>

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 \$3,015,507 as of June 30, 2013. The Town's net position increased by \$450,610 for the fiscal year ended June 30, 2013. The largest portion of net position (41%) 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 (15%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,329,542 is unrestricted.

Management Discussion and Analysis  
Town of China Grove

**Town of China Grove's Changes in Net position**

**Figure 3**

	Governmental Activities		Total	
	2013	2012	2013	2012
Revenues:				
Program revenues:				
Charges for services	\$ 14,848	\$ 16,379	\$ 14,848	\$ 16,379
Operating grants and contributions	315,835	1,080,155	315,835	1,080,155
Capital grants and contributions	-	-	-	-
General revenues:				
Property taxes	1,495,693	1,270,932	1,495,693	1,270,932
Grants and contributions not restricted to specific programs	1,016,659	806,550	1,016,659	806,550
Other	134,907	(595,544)	134,907	(595,544)
Total revenues	<u>2,977,942</u>	<u>2,578,472</u>	<u>2,977,942</u>	<u>2,578,472</u>
Expenses:				
General government	386,789	339,720	386,789	339,720
Public safety	1,122,868	1,170,787	1,122,868	1,170,787
Transportation	94,160	109,458	94,160	109,458
Environmental protection	630,579	639,008	630,579	639,008
Economic and physical development	32,494	803,149	32,494	803,149
Cultural and recreation	127,259	81,381	127,259	81,381
Interest on long-term debt	133,183	106,594	133,183	106,594
Total expenses	<u>2,527,332</u>	<u>3,250,097</u>	<u>2,527,332</u>	<u>3,250,097</u>
Increase in net position	450,610	(671,625)	450,610	(671,625)
Net position, July 1	<u>2,564,897</u>	<u>3,236,522</u>	<u>2,564,897</u>	<u>3,236,522</u>
Net position, June 30	<u>\$ 3,015,507</u>	<u>\$ 2,564,897</u>	<u>\$ 3,015,507</u>	<u>\$ 2,564,897</u>

**Governmental activities.** Governmental activities increased the Town's net position by \$450,610, thereby accounting for 100% of total growth in the net position of the Town of China Grove. Key elements of this increase are as follows:

- Completion of the Town Hall/Fire Department Renovations.
- Correction of the Town's 2010 Census population count.

### **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 \$ 1,963,497 while total fund balance reached \$ 2,468,592. 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 67 % of total General Fund expenditures, while total fund balance represents 85 % of that same amount.

At June 30, 2013, the governmental funds of the Town reported a combined fund balance of \$2,477,611 a 9% increase over last year. This is the result of a net change in fund balance of \$202,979.

**General Fund Budgetary Highlights:** During the fiscal year, the Town revised the budget three 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 Revenue was increased due to the change in Census numbers from an appeal to the Census Bureau. This increase in Revenue enabled expenditures to be increased in the various Departments. 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, 2013, totals \$ 3,414,427 (net of accumulated depreciation). These assets include buildings, roads and other infrastructure, land, machinery and equipment, and vehicles.

The Town finished the renovations of the Town Hall/Fire Department during the fiscal year, which increased the total capital assets. The Police Department purchased one Vehicle and replaced all the Bullet Proof vests. Those expenditures were allocated in the budget and financed through a loan and two grants. The Town also replaced the Christmas lights with LED Christmas Lights and realized a 90% savings in electricity. This expenditure was allocated in the budget and financed partly through donations.

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

**Figure 4**

	Governmental Activities		Total	
	2013	2012	2013	2012
Land	\$ 50,912	\$ 50,912	\$ 50,912	\$ 50,912
Buildings and system	2,363,187	1,868,926	2,363,187	1,868,926
Improvements other than buildings	62,206	67,947	62,206	67,947
Machinery and equipment	351,909	416,408	351,909	416,408
Infrastructure	586,213	550,026	586,213	550,026
<b>Total</b>	<b>\$ 3,414,427</b>	<b>\$ 2,954,219</b>	<b>\$ 3,414,427</b>	<b>\$ 2,954,219</b>

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, 2013, the Town had no bonded debt.

The Town’s total debt decreased \$196,931 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.

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 \$15,552,150. The Town has \$ 0 in bonds authorized but un-issued at June 30, 2013.

Management Discussion and Analysis  
Town of China Grove

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 9.4% which is higher than the States unemployment rate of 9.2%. Rowan County has continued to rebound and decrease the unemployment rate since the recession.
- 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. The construction is finished on the Core Building and several other buildings and that area has seen increased growth in the past year.

### **Budget Highlights for the Fiscal Year Ending June 30, 2014**

**Governmental Activities:** Operating revenues in the General Fund have remained fairly consistent over the past several years. The tax rate will remain at \$.54 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 \$1,438,000. This is 46% 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 \$879,500 or 28% of the total General Fund Revenues. Combined, these three revenue sources account for approximately 75% of the General Fund Revenues.

The 2013-2014 General Fund budget is approximately \$138,900 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 not require a tax increase, and no additional fees were assessed. This Budget will see limited capital outlay for this fiscal year.

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

Management Discussion and Analysis  
Town of China Grove

**Requests for Information**

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

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Town of China Grove  
Finance Officer  
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[mbopp@chinagrovenc.gov](mailto:mbopp@chinagrovenc.gov)

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

TOWN OF CHINA GROVE, NORTH CAROLINA  
STATEMENT OF NET POSITION  
June 30, 2013

Exhibit 1

	Governmental Activities	Total
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,154,373	\$ 2,154,373
Taxes receivable (net)	78,573	78,573
Accrued interest receivable on taxes	15,204	15,204
Accounts receivable	1,757	1,757
Debt reimbursement receivable from City of Salisbury-current portion	386,476	386,476
Prepaid items	5,399	5,399
Due from other governments	276,102	276,102
Restricted cash and cash equivalents	148,107	148,107
Total current assets	3,065,991	3,065,991
Non-current assets:		
Debt reimbursement receivable from City of Salisbury-due in more than one year	2,918,697	2,918,697
Capital assets:		
Land, non-depreciable improvements, and construction in progress	50,912	50,912
Other capital assets, net of depreciation	3,363,515	3,363,515
Total capital assets	3,414,427	3,414,427
Total assets	9,399,115	9,399,115
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	82,824	82,824
Accrued interest payable	54,483	54,483
Unearned revenue-Farmer's Day	21,740	21,740
Current portion of long-term liabilities	594,930	594,930
Long-term liabilities:		
Due in more than one year	5,626,068	5,626,068
Total liabilities	6,380,045	6,380,045
<b>Deferred Inflows of Resources</b>		
Prepaid taxes	3,563	3,563
Total deferred inflows of resources	3,563	3,563
<b>Net Position</b>		
Invested in capital assets, net of related debt	1,224,950	1,224,950
Restricted for:		
Stabilization by State Statute	277,859	277,859
Other functions	183,156	183,156
Unrestricted	1,329,542	1,329,542
Total net position	\$ 3,015,507	\$ 3,015,507

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

TOWN OF CHINA GROVE, NORTH CAROLINA  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2013

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	\$ 386,789	\$ -	\$ 90,149	\$ -	\$ (296,640)	\$ (296,640)
Public Safety	1,122,868	4,818	72,436	-	(1,045,614)	(1,045,614)
Transportation	94,160	-	117,362	-	23,202	23,202
Environmental protection	630,579	-	35,888	-	(594,691)	(594,691)
Economic and physical development	32,494	80	-	-	(32,414)	(32,414)
Cultural and recreation	105,290	9,950	-	-	(95,340)	(95,340)
Farmers Day	21,969	-	-	-	(21,969)	(21,969)
Interest on long-term debt	133,183	-	-	-	(133,183)	(133,183)
<b>Total governmental activities (See Note 1)</b>	<b>2,527,332</b>	<b>14,848</b>	<b>315,835</b>	<b>-</b>	<b>(2,196,649)</b>	<b>(2,196,649)</b>
General revenues:						
Taxes:						
Property taxes, levied for general purpose					1,495,693	1,495,693
Grants and contributions not restricted to specific programs					1,016,659	1,016,659
Farmers Day					42,479	42,479
Unrestricted investment earnings					11,405	11,405
Miscellaneous					81,023	81,023
<b>Total general revenues and transfers</b>					<b>2,647,259</b>	<b>2,647,259</b>
Change in net assets					450,610	450,610
Net assets, beginning					2,564,897	2,564,897
Net assets, ending					<b>\$ 3,015,507</b>	<b>\$ 3,015,507</b>

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, 2013

Exhibit 3

	General Fund	Capital Reserve Fund	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 2,145,354	\$ 9,019	\$ 2,154,373
Restricted cash	148,107	-	148,107
Taxes receivable (net)	78,573	-	78,573
Account receivable	1,757	-	1,757
Prepaid items	5,399	-	5,399
Due from other governments	276,102	-	276,102
Debt reimbursement receivable from City of Salisbury	3,305,173	-	3,305,173
Total assets	5,960,465	9,019	5,969,484
<b>Liabilities</b>			
Accounts payable and accrued liabilities	82,824	-	82,824
Unearned revenue-Farmer's Day	21,740	-	21,740
Total liabilities	104,564	-	104,564
<b>Deferred Inflows of Resources</b>			
Property taxes receivable	78,573	-	78,573
Prepaid taxes	3,563	-	3,563
Debt reimbursement from City of Salisbury	3,305,173	-	3,305,173
Total deferred inflows of resources	3,387,309	-	3,387,309
<b>Fund Balances</b>			
Non Spendable			
Prepaid expenses	5,399	-	5,399
Restricted			
Stabilization by State statute	277,859	-	277,859
Streets	116,322	-	116,322
Adequate Public Facilities Ordinance-Police	8,090	-	8,090
Adequate Public Facilities Ordinance-Fire	33,545	-	33,545
Adequate Public Facilities Ordinance-Parks	16,180	-	16,180
Capital Reserve	-	9,019	9,019
Assigned			
Subsequent year's expenditures	47,700	-	47,700
Unassigned	1,963,497	-	1,963,497
Total fund balances	2,468,592	9,019	2,477,611
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,960,465	\$ 9,019	

TOWN OF CHINA GROVE, NORTH CAROLINA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2013

Exhibit 3

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Gross capital assets at historical cost	6,156,243	
Accumulated depreciation	(2,741,816)	3,414,427

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.

15,204

Liabilities for earned revenues considered deferred inflows of resources in fund statements

3,383,746

Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds

(6,220,998)

Other long-term liabilities (accrued interest), are not due and payable in the current period and therefore are not reported in the funds.

(54,483)

Net assets of governmental activities

\$ 3,015,507

TOWN OF CHINA GROVE, NORTH CAROLINA  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2013

Exhibit 4

	General Fund	Capital Reserve Fund	Town Hall/ Fire Department Capital Project Fund	Total Governmental Funds
<b>Revenues</b>				
Ad valorem taxes	\$ 1,480,478	\$ -	\$ -	\$ 1,480,478
Unrestricted intergovernmental	1,016,659	-	-	1,016,659
Restricted intergovernmental	702,311	-	-	702,311
Permits and fees	14,848	-	-	14,848
Investment earnings	11,151	4	250	11,405
Miscellaneous	119,754	-	3,753	123,507
<b>Total Revenues</b>	<b>3,345,201</b>	<b>4</b>	<b>4,003</b>	<b>3,349,208</b>
<b>Expenditures</b>				
Current				
General Government	358,196	-	-	358,196
Public safety	1,051,334	-	-	1,051,334
Transportation	129,326	-	-	129,326
Environmental protection	604,251	-	-	604,251
Economic and physical development	32,494	-	-	32,494
Cultural and recreational	122,154	-	-	122,154
Debt Service				
Principal retirement	520,169	-	-	520,169
Interest	94,935	-	-	94,935
Capital outlay	-	-	545,370	545,370
<b>Total expenditures</b>	<b>2,912,859</b>	<b>-</b>	<b>545,370</b>	<b>3,458,229</b>
Excess (deficiency) of revenues over expenditures	432,342	4	(541,367)	(109,021)
<b>Other financing sources (uses):</b>				
Proceeds from borrowing	32,000	-	280,000	312,000
Transfer-close of capital project	(77,314)	-	77,314	-
<b>Total other financing sources (uses)</b>	<b>(45,314)</b>	<b>-</b>	<b>357,314</b>	<b>312,000</b>
<b>Net change in fund balance</b>	<b>387,028</b>	<b>4</b>	<b>(184,053)</b>	<b>202,979</b>
Fund balances, beginning	2,081,564	9,015	184,053	2,274,632
<b>Fund balance, ending</b>	<b>\$ 2,468,592</b>	<b>\$ 9,019</b>	<b>\$ -</b>	<b>\$ 2,477,611</b>

TOWN OF CHINA GROVE, NORTH CAROLINA  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2013

Exhibit 4

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

Net changes in fund balances - total governmental funds	\$	202,979
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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	\$	628,525	
Depreciation expense for government assets		<u>(168,316)</u>	460,209

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		15,215	
Change in unearned revenue for debt reimbursement-City of Salisbury		<u>(386,476)</u>	(371,261)

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		(312,000)	
Principal payments on long-term debt		520,169	
Increase in accrued interest payable		<u>(38,248)</u>	169,921

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(1,624)	
Net pension obligation		<u>(9,614)</u>	

Total changes in net assets of governmental activities	\$	<u>450,610</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, 2013

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
<b>Revenues</b>				
Ad valorem taxes	\$ 1,447,500	\$ 1,447,500	\$ 1,480,478	\$ 32,978
Unrestricted intergovernmental	867,000	867,000	1,016,659	149,659
Restricted intergovernmental	668,100	683,100	702,311	19,211
Permits and fees	16,400	16,400	14,848	(1,552)
Investment earnings	-	-	11,151	11,151
Miscellaneous	24,700	74,700	119,754	45,054
<b>Total revenues</b>	<b>3,023,700</b>	<b>3,088,700</b>	<b>3,345,201</b>	<b>256,501</b>
<b>Expenditures</b>				
Current				
General government	504,400	383,220	358,196	25,024
Public safety	1,132,900	1,167,447	1,051,334	116,113
Transportation	129,500	129,500	129,326	174
Environmental protection	611,800	660,900	604,251	56,649
Economic and physical development	35,600	35,600	32,494	3,106
Cultural and recreational	73,300	133,000	122,154	10,846
Debt service				
Principal retirement	494,500	533,070	520,169	12,901
Interest	91,200	95,463	94,935	528
<b>Total expenditures</b>	<b>3,073,200</b>	<b>3,138,200</b>	<b>2,912,859</b>	<b>225,341</b>
Revenues over (under) expenditures	(49,500)	(49,500)	432,342	481,842
<b>Other financing sources (uses):</b>				
Proceeds from borrowing	32,000	32,000	32,000	-
Transfer-close of capital project fund	-	-	(77,314)	(77,314)
Fund balance appropriated	17,500	17,500	-	(17,500)
<b>Total other financing sources (uses)</b>	<b>49,500</b>	<b>49,500</b>	<b>(45,314)</b>	<b>(94,814)</b>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	387,028	<u>\$ 387,028</u>
Fund balance, beginning			2,081,564	
Fund balance, ending			<u>\$ 2,468,592</u>	

TOWN OF CHINA GROVE, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013

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.

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

TOWN OF CHINA GROVE, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013

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 are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Rowan County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of China Grove. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Rowan County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period 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, 2013

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. Project ordinances are adopted for the Capital Reserve Fund, and the Town Hall/Fire Department Capital Project 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

The Town has Police drug account monies on deposit that are restricted for specific uses. Powell Bill funds are also 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, 2013

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, 2013

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

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

TOWN OF CHINA GROVE, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013

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: The Town’s appropriations were authorized at the department level. For the fiscal year ended June 30, 2013, a transfer from the General Fund to the Town Hall/Fire Department Capital Project Fund was not budgeted in the Town’s General Fund. However, the transfer was authorized in the capital project ordinance. Management and the Board will more closely monitor such items to ensure that they are properly budgeted in future years.

TOWN OF CHINA GROVE, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013

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, 2013, the Town's deposits had a carrying amount of \$2,127,934 and a bank balance of \$2,321,849. Of the bank balance, \$539,982 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2013, the Town's petty cash fund totaled \$450.

2. Investments

At June 30, 2013, the Town of China Grove had \$174,096 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, 2013 is net of an allowance for doubtful accounts of \$17,690.

TOWN OF CHINA GROVE, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 50,912	\$ -	\$ -	\$ 50,912
Construction in progress	1,671,858	-	1,671,858	-
Total capital assets not being depreciated	<u>1,722,770</u>	-	1,671,858	<u>50,912</u>
Capital assets being depreciated:				
Buildings	522,923	2,217,227	-	2,740,150
Equipment	2,571,323	34,654	-	2,605,977
Infrastructure	567,179	48,501	-	615,680
Other improvements	143,525	-	-	143,525
Total capital assets being depreciated	<u>3,804,950</u>	<u>2,300,382</u>	-	<u>6,105,332</u>
Less accumulated depreciation for:				
Buildings	325,855	51,108	-	376,963
Equipment	2,154,915	99,153	-	2,254,068
Infrastructure	17,153	12,314	-	29,467
Other improvements	75,578	5,741	-	81,319
Total accumulated depreciation	<u>2,573,501</u>	<u>\$ 168,316</u>	<u>\$ -</u>	<u>2,741,817</u>
Total capital assets being depreciated, net	<u>1,231,449</u>			<u>3,363,515</u>
Governmental activity capital assets, net	<u>\$ 2,954,219</u>			<u>\$ 3,414,427</u>

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

General government	\$ 28,087
Public safety	97,913
Transportation	13,334
Environmental protection	23,876
Cultural and recreation	<u>5,106</u>
Total depreciation expense	<u>\$ 168,316</u>

TOWN OF CHINA GROVE, NORTH CAROLINA  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2013

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy- Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, 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, 2013, 2012, and 2011 were \$53,460, \$56,449, and \$61,505, 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, 2012 the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>13</u>
Total	<u><u>13</u></u>

A separate report was not issued for the plan.

TOWN OF CHINA GROVE, NORTH CAROLINA  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2013

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, 2012 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	\$ 10,332
Interest on net pension obligation	2,933
Adjustment to annual required contribution	<u>(3,651)</u>
Annual pension cost	9,614
Contributions made	<u>-</u>
Increase (decrease) in net pension obligation	9,614
Net pension obligation beginning of year	<u>58,667</u>
Net pension obligation end of year	<u><u>\$ 68,281</u></u>

For Year Ended June 30	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
2011	\$7,374	0.00%	\$50,791
2012	\$7,876	0.00%	\$58,667
2013	\$9,614	0.00%	\$68,281

TOWN OF CHINA GROVE, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013

4. Funding Status and Funding Progress- As of December 31, 2012, 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 \$55,204. The covered payroll (annual payroll of active employees covered by the plan) was \$459,243, and the ratio of the UAAL to the covered payroll was 12.02 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, 2013 were \$26,543, which consisted of \$21,568 from the Town and \$4,975 from the law enforcement officers.

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

Plan Description- The State of North Carolina contributes, on behalf of the Town of China Grove, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy- Plan members are required to contribute \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The Town pays its members' required contributions on their behalf. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

TOWN OF CHINA GROVE, NORTH CAROLINA  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2013

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	\$ -	\$ 3,563
Taxes receivable	78,573	-
Debt reimbursement from City of Salisbury	3,305,173	-
	\$3,383,746	\$ 3,563

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, 2013

4. Reconciliation of Powell Bill Expenditures

The following is a reconciliation of Powell Bill expenditures:

Per financial statements-transportation	\$ 129,326
Accounts payable not included on report	<u>(36,947)</u>
 Per Powell Bill Expenditures Report	 <u>\$ 92,379</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, 2013:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 44,485	\$ 14,993	\$ 29,492
 Total	 <u>\$ 44,485</u>	 <u>\$ 14,993</u>	 <u>\$ 29,492</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013 are as follows:

Year Ending June 30	
2014	\$ 12,832
2015	12,832
2016	<u>7,664</u>
 Total minimum lease payments	 33,328
Less amount representing interest	<u>5,252</u>
 Present value of the minimum lease payments	 <u>\$ 28,076</u>

TOWN OF CHINA GROVE, NORTH CAROLINA  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2013

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, 2013 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 41,371	\$ 74,715
2015	42,819	73,267
2016	44,317	71,769
2017	45,868	70,218
2018	47,474	68,612
2019-2023	263,486	316,944
2024-2028	312,939	267,491
2029-2033	371,674	208,756
2034-2038	441,432	138,998
2039-2043	523,345	56,147
	<u>\$2,134,725</u>	<u>\$ 1,346,917</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, 2013 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 176,987	\$ 18,407
2015	176,987	13,805
2016	176,987	9,203
2017	176,985	4,602
	<u>\$ 707,946</u>	<u>\$ 46,017</u>

TOWN OF CHINA GROVE, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013

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, 2013 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 83,907	\$ 21,564
2015	83,907	19,408
2016	83,907	17,251
2017	83,907	15,095
2018	83,907	12,938
2019-2022	419,533	32,346
	<u>\$ 839,068</u>	<u>\$ 118,602</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, 2013 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 125,583	\$ 40,526
2015	125,583	37,631
2016	125,583	34,736
2017	125,583	31,842
2018	125,583	28,947
2019-2023	627,914	101,314
2024-2026	502,330	28,947
	<u>\$ 1,758,159</u>	<u>\$ 303,943</u>

TOWN OF CHINA GROVE, NORTH CAROLINA  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2013

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, 2013 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 10,490	\$ 749
2015	10,836	403
2016	5,551	68
	\$ 26,877	\$ 1,220

g. 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, 2013 was \$720,000. 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, 2013 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 120,000	\$ -
2015	120,000	-
2016	120,000	-
2017	120,000	-
2018	120,000	-
	\$ 600,000	\$ -

At June 30, 2013 the Town of China Grove, North Carolina had a legal debt margin of \$15,552,150.

TOWN OF CHINA GROVE, NORTH CAROLINA  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2013

g. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 6,266,374	\$ 312,000	\$ 511,599	\$ 6,066,775	\$ 558,337
Capitalized leases	36,646	-	8,570	28,076	9,725
Compensated absences	56,242	1,624	-	57,866	26,868
Net pension benefit	58,667	9,614	-	68,281	-
Governmental activities long-term liabilities	<u>\$ 6,417,929</u>	<u>\$ 323,238</u>	<u>\$ 520,169</u>	<u>\$ 6,220,998</u>	<u>\$ 594,930</u>

C. Interfund Balances and Activity

The transfer from the General Fund to the Town Hall/Fire Department Capital Project Fund was to fund project expenses not funded by borrowings.

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

For the fiscal year ended June 30, 2013, the Town of China Grove has recognized on-behalf of payments for pension contributions made by the State as revenue and an expenditure of \$9,594 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.

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	\$2,468,592
Less:	
Prepaid items	5,399
Stabilization by State Statute	277,859
Streets-Powell	116,322
Adequate Public Facilities Ordinance-Police	8,090
Adequate Public Facilities Ordinance-Fire	33,545
Adequate Public Facilities Ordinance-Parks	16,180
Appropriated Fund Balance in 2013-14 budget	47,700
Working Capital/Fund Balance Policy	-
Remaining Fund Balance	1,963,497

TOWN OF CHINA GROVE, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013

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, 2013, 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, 2013. 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 October 28, 2013, the date the financial statements were available to be issued.

VII. Change in Accounting Principal

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement 65, Items Previously reported as Assets and Liabilities, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position.

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)
12/31/07	-	\$ 42,578	\$ 42,578	0%	\$ 339,314	12.55%
12/31/08	-	48,574	48,574	0%	356,714	13.62%
12/31/09	-	42,071	42,071	0%	323,748	12.99%
12/31/10	-	32,748	32,748	0%	389,339	8.41%
12/31/11	-	43,736	43,736	0%	449,588	9.73%
12/31/12	-	55,204	55,204	0%	459,243	12.02%

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

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<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2008	\$ 4,958	0.0%
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%

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Notes to the Required Schedules:

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

Valuation date	12/31/2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 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, 2013

	Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Ad valorem taxes			
Taxes	\$ 1,440,000	\$ 1,470,625	\$ 30,625
Penalties and interest	7,500	9,853	2,353
Total	<u>1,447,500</u>	<u>1,480,478</u>	<u>32,978</u>
Unrestricted intergovernmental			
Local option sales taxes	640,000	646,898	6,898
Telecommunications sales tax	60,000	54,724	(5,276)
Utility franchise tax	114,000	151,042	37,042
Piped natural gas	13,500	12,482	(1,018)
Video franchise fee	23,000	24,002	1,002
Cable TV franchise fee	5,000	6,254	1,254
Beer and wine tax	6,500	16,804	10,304
ABC profit distribution	5,000	7,126	2,126
Rowan County-sales tax census adjustment	-	97,327	97,327
Total	<u>867,000</u>	<u>1,016,659</u>	<u>149,659</u>
Restricted intergovernmental			
Powell Bill allocation	112,000	117,362	5,362
Controlled substance tax	1,200	465	(735)
Fire tax	12,500	7,397	(5,103)
Fire tax supplement	9,100	7,740	(1,360)
Salisbury/Rowan Schools-SRO	35,600	35,471	(129)
Debt reimbursement from City of Salisbury	476,700	476,625	(75)
Public safety grants	18,500	11,769	(6,731)
On-behalf of payments - Fire	15,000	9,594	(5,406)
Solid waste disposal	2,500	2,344	(156)
Salisbury-Rowan Utilities-upgrade reimbursement	-	33,544	33,544
Total	<u>683,100</u>	<u>702,311</u>	<u>19,211</u>
Permits and fees			
Police fines and citations	6,500	4,818	(1,682)
Zoning and development fees	-	80	80
Community building rent	9,900	9,950	50
Total	<u>16,400</u>	<u>14,848</u>	<u>(1,552)</u>
Investment earnings	-	11,151	11,151
Miscellaneous			
Contribution revenue	-	5,600	5,600
Farmers Day revenue	22,700	42,479	19,779
Other	52,000	71,675	19,675
Total	<u>74,700</u>	<u>119,754</u>	<u>45,054</u>
Total revenues	<u>\$ 3,088,700</u>	<u>\$ 3,345,201</u>	<u>\$ 256,501</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, 2013

	Budget	Actual	Variance Positive (Negative)
<b>Expenditures</b>			
General government			
Governing body			
Salaries and wages	\$ 6,800	\$ 6,720	\$ 80
Payroll tax	600	514	86
Travel and schools	-	312	(312)
Advertising	300	-	300
Membership and dues	6,600	6,636	(36)
Miscellaneous	1,200	726	474
Community appearance	15,000	14,401	599
Grant match bus service	7,500	6,862	638
Donations	8,000	7,265	735
	<u>46,000</u>	<u>43,436</u>	<u>2,564</u>
Administration			
Salaries and wages	168,600	156,074	12,526
Salaries and wages-overtime	-	1,144	(1,144)
Payroll tax	12,900	11,774	1,126
Employee benefits	28,600	24,253	4,347
Workers compensation	800	658	142
Professional fees-accounting	22,000	21,500	500
Professional fees-legal	12,000	9,491	2,509
Professional fees	-	173	(173)
Office supplies	1,200	2,763	(1,563)
Materials and supplies	5,600	3,237	2,363
Contracted services	2,200	1,672	528
Technical support	10,000	11,536	(1,536)
Travel and schools	2,000	1,952	48
Telephone and postage	5,000	5,762	(762)
Utilities	9,000	8,023	977
Printing and codification	2,000	1,009	991
Repair and maintenance	11,000	3,950	7,050
Advertising	-	254	(254)
Bank service fees	100	94	6
Memberships and dues	100	186	(86)
Miscellaneous	2,500	4,072	(1,572)
Leases and maintenance	620	4,446	(3,826)
Insurance	15,000	14,544	456
Rowan County tax services	23,000	23,445	(445)
Capital outlay	3,000	2,748	252
	<u>337,220</u>	<u>314,760</u>	<u>22,460</u>
Total general government	<u>\$ 383,220</u>	<u>\$ 358,196</u>	<u>\$ 25,024</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, 2013

	Budget	Actual	Variance Positive (Negative)
Public safety			
Police department			
Salaries and wages	\$ 416,200	\$ 387,660	\$ 28,540
School resource officers	31,300	31,338	(38)
Salaries and wages-overtime	1,500	860	640
Salary and wages-part time	-	720	(720)
Payroll tax	34,300	32,077	2,223
Employee benefits	127,300	112,534	14,766
Workers compensation	16,000	15,951	49
Materials and supplies	10,000	5,993	4,007
Fuel and oil	50,000	36,428	13,572
Uniforms	3,500	4,789	(1,289)
Weapons	3,000	2,183	817
Contract services	4,047	4,603	(556)
Technical support	6,200	7,230	(1,030)
Travel and schools	2,000	1,211	789
Telephone and postage	3,400	2,229	1,171
Cell phones and pagers	8,500	9,084	(584)
Utilities	7,700	8,646	(946)
Repairs and maintenance	30,000	15,897	14,103
Repairs and maintenance-building	5,000	3,147	1,853
Memberships and dues	300	280	20
Miscellaneous	2,000	1,512	488
Insurance	15,200	14,110	1,090
Capital outlay	50,800	43,376	7,424
Total police department	<u>\$ 828,247</u>	<u>\$ 741,858</u>	<u>\$ 86,389</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, 2013

	Budget	Actual	Variance Positive (Negative)
Fire department			
Salaries and wages-regular	\$ 126,200	\$ 111,161	\$ 15,039
Salaries and wages-overtime	-	1,042	(1,042)
Salaries and wages-part time	9,500	20,537	(11,037)
Salaries and wages-per call	8,000	5,905	2,095
Payroll tax	11,000	10,538	462
Employee benefits	36,300	21,290	15,010
Workers compensation	7,200	6,727	473
Food and provisions	500	476	24
Medical supplies	1,000	1,547	(547)
Material and supplies	4,800	8,082	(3,282)
Fuel and oil	8,400	11,009	(2,609)
Uniforms	2,500	3,556	(1,056)
Turn out gear	4,500	6,721	(2,221)
Contracted services	1,800	1,704	96
Travel and schools	1,000	674	326
Telephone and postage	1,200	2,091	(891)
Cell phones and pagers	6,000	2,704	3,296
Utilities	13,000	11,260	1,740
Repairs and maintenance	57,000	49,423	7,577
Repairs and maintenance-buildings	-	2,464	(2,464)
Memberships and dues	500	945	(445)
Miscellaneous	2,500	1,112	1,388
Insurance	12,500	13,054	(554)
Fire pension fund	1,800	360	1,440
Fire on-behalf of payments	15,000	9,594	5,406
Capital outlay	7,000	5,500	1,500
	<u>339,200</u>	<u>309,476</u>	<u>29,724</u>
Total fire department			
	<u>1,167,447</u>	<u>1,051,334</u>	<u>116,113</u>
Total public safety			
Transportation			
Streets and highways			
Professional fees-engineer	2,000	-	2,000
Professional fees	1,000	287	713
Repairs and maintenance	10,000	10,100	(100)
Drainage	2,500	4,600	(2,100)
Miscellaneous	2,000	-	2,000
Paving	110,000	64,000	46,000
Right of way	2,000	1,839	161
Capital outlay	-	48,500	(48,500)
	<u>-</u>	<u>48,500</u>	<u>(48,500)</u>
Total transportation	<u>\$ 129,500</u>	<u>\$ 129,326</u>	<u>\$ 174</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, 2013

	Budget	Actual	Variance Positive (Negative)
Environmental protection			
Public works			
Employee wages-regular	\$ 154,000	\$ 148,108	\$ 5,892
Employee wages-overtime	2,000	2,944	(944)
Payroll taxes	12,000	11,700	300
Employee benefits	44,800	36,016	8,784
Workers compensation	9,600	9,972	(372)
Materials and supplies	9,500	5,367	4,133
Fuel and oil	18,100	18,550	(450)
Uniforms	1,500	1,165	335
Safety equipment and materials	500	-	500
Contracted services	50,500	52,656	(2,156)
Travel and schools	500	391	109
Telephone and postage	1,600	1,996	(396)
Cell phones and pagers	2,700	2,610	90
Utilities	5,800	5,358	442
Street lights	43,900	43,482	418
Repairs and maintenance	30,000	17,950	12,050
Repairs and maintenance-buildings	-	253	(253)
Memberships and dues	200	140	60
Miscellaneous	500	99	401
Equipment rental	1,500	899	601
Insurance	8,700	9,861	(1,161)
Garbage and recycling contract	212,000	211,470	530
Landfill charges	21,000	21,369	(369)
Stormwater expenses	30,000	1,895	28,105
Total environmental protection	<u>660,900</u>	<u>604,251</u>	<u>56,649</u>
Economic and physical development			
Planning			
Professional fees - planner	25,000	25,000	-
Contracted services	4,500	2,775	1,725
Telephone and postage	-	90	(90)
Advertising	2,000	525	1,475
Tourism and economic development	4,100	4,104	(4)
Total economic and physical development	<u>\$ 35,600</u>	<u>\$ 32,494</u>	<u>\$ 3,106</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, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Cultural and recreational			
Recreation			
Contracted services	\$ 31,000	\$ 30,475	\$ 525
Christmas activities	20,300	19,431	869
Community building expenses	11,500	10,419	1,081
Utilities	10,600	8,167	2,433
Miscellaneous	300	-	300
Insurance	4,600	5,803	(1,203)
Playground expense	8,000	1,634	6,366
Little League	2,000	2,455	(455)
Capital outlay	<u>22,000</u>	<u>21,800</u>	<u>200</u>
Total recreation	<u>110,300</u>	<u>100,184</u>	<u>10,116</u>
Farmers Day			
Travel	-	84	(84)
Miscellaneous	350	1,705	(1,355)
Donations	1,700	150	1,550
Administrative costs	-	660	(660)
Entertainment	8,000	7,175	825
Sound equipment & stage	6,000	6,200	(200)
Fireworks	3,000	1,500	1,500
T-shirts	1,400	2,044	(644)
Rentals	1,400	1,503	(103)
Rowan Septic	800	949	(149)
P.O. Box rental	<u>50</u>	<u>-</u>	<u>50</u>
Total Farmers Day	<u>22,700</u>	<u>21,970</u>	<u>730</u>
Total cultural and recreational	<u>133,000</u>	<u>122,154</u>	<u>10,846</u>
Debt service			
Principal retirement	533,070	520,169	12,901
Interest	<u>95,463</u>	<u>94,935</u>	<u>528</u>
Total debt service	<u>628,533</u>	<u>615,104</u>	<u>13,429</u>
Total expenditures	<u>3,138,200</u>	<u>2,912,859</u>	<u>225,341</u>
Revenues over (under) expenditures	<u>\$ (49,500)</u>	<u>\$ 432,342</u>	<u>\$ 481,842</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, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>Other financing sources (uses)</b>			
Proceeds from borrowing	\$ 32,000	\$ 32,000	\$ -
Transfer-close of capital project fund	-	(77,314)	(77,314)
Fund balance appropriated	<u>17,500</u>	<u>-</u>	<u>(17,500)</u>
 Total other financing sources (uses)	 <u>49,500</u>	 <u>(45,314)</u>	 <u>(94,814)</u>
 Revenues and other financing sources over (under) expenditures and other financing uses	 <u>\$ -</u>	 387,028	 <u>\$ 387,028</u>
 <b>Fund balances</b>			
Fund balance, beginning		<u>2,081,564</u>	
Fund balance, ending		<u>\$ 2,468,592</u>	

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, 2013

	Budget	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
<b>Revenues</b>					
Interest	\$ 15,000	\$ 18,415	\$ 4	\$ 18,419	\$ 3,419
Total revenues	15,000	18,415	4	18,419	3,419
<b>Other financing sources (uses)</b>					
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
<b>Revenues and other financing sources over (under) expenditures and other financing uses</b>	\$ -	\$ 9,015	\$ 4	\$ 9,019	\$ 9,019

TOWN OF CHINA GROVE, NORTH CAROLINA  
TOWN HALL / FIRE DEPARTMENT CAPITAL PROJECT FUND  
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)  
From Inception and For the Year Ended June 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues</b>					
Proceeds from borrowing	\$ 2,134,725	\$ 1,854,725	\$ 280,000	\$ 2,134,725	\$ -
Investment earnings	-	1,185	250	1,435	1,435
Miscellaneous revenue	-	-	3,753	3,753	3,753
Transfer from General Fund to close	110,225	-	77,314	77,314	(32,911)
<b>Total revenues</b>	<b>2,244,950</b>	<b>1,855,910</b>	<b>361,317</b>	<b>2,217,227</b>	<b>(27,723)</b>
<b>Expenditures</b>					
Professional fees	194,973	139,564	18,861	158,425	36,548
Testing	-	31,110	3,762	34,872	(34,872)
Bank fees	-	7,650	-	7,650	(7,650)
Miscellaneous	-	13,343	7,959	21,302	(21,302)
Construction	1,825,000	1,445,414	500,878	1,946,292	(121,292)
Interest expense	75,000	34,776	13,910	48,686	26,314
Contingency	149,977	-	-	-	149,977
<b>Total expenditures</b>	<b>2,244,950</b>	<b>1,671,857</b>	<b>545,370</b>	<b>2,217,227</b>	<b>27,723</b>
<b>Revenues over (under) expenditures</b>	<b>\$ -</b>	<b>\$ 184,053</b>	<b>\$ (184,053)</b>	<b>\$ -</b>	<b>\$ -</b>

TOWN OF CHINA GROVE, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
June 30, 2013

Fiscal Year	Uncollected Balance June 30, 2012	Additions	Collections and Credits	Uncollected Balance June 30, 2013
2012-2013	\$ -	\$ 1,502,118	\$ 1,443,071	\$ 59,047
2011-2012	47,473	-	31,111	16,362
2010-2011	11,259	-	4,847	6,412
2009-2010	5,917	-	2,281	3,636
2008-2009	3,604	-	1,261	2,343
2007-2008	2,852	-	686	2,166
2006-2007	1,799	-	497	1,302
2005-2006	2,051	-	44	2,007
2004-2005	1,672	-	58	1,614
2003-2004	1,410	-	36	1,374
2002-2003	1,688	-	1,688	-
	<u>\$ 79,725</u>	<u>\$ 1,502,118</u>	<u>\$ 1,485,580</u>	96,263
Less allowance for uncollectible accounts:				
General Fund				<u>17,690</u>
Ad valorem taxes receivable-net				<u><u>78,573</u></u>
Reconcilement with revenues:				
Ad valorem taxes - General Fund				1,480,477
Reconciling items				
Interest collected				(9,853)
Discounts allowed				11,736
Taxes written off				<u>3,220</u>
Total collections and credits				<u><u>\$ 1,485,580</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA  
ANALYSIS OF CURRENT TAX LEVY  
TOWN-WIDE LEVY  
For the Year Ended June 30, 2013

	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	\$262,283,955	\$.54	\$1,462,770	\$ 1,381,476	\$ 81,294
Prior year's rate	8,553,618	.47	40,203	-	40,203
Penalties	-		595	595	-
Total	<u>270,837,573</u>		<u>1,503,568</u>	<u>1,382,071</u>	<u>121,497</u>
Discoveries					
Current year taxes	53,150	.54	287	287	
Prior year taxes	142,340	.47	669	-	669
Penalties	-		-	-	-
Total	<u>195,490</u>		<u>956</u>	<u>287</u>	<u>669</u>
Abatements	<u>(445,556)</u>		<u>(2,406)</u>	<u>(801)</u>	<u>(1,605)</u>
Total property valuation	<u><u>\$270,587,507</u></u>				
Net levy			1,502,118	1,381,557	120,561
Uncollected taxes at June 30, 2013			<u>(59,047)</u>	<u>(43,547)</u>	<u>(15,500)</u>
Current year's taxes collected			<u>\$1,443,071</u>	<u>\$ 1,338,010</u>	<u>\$ 105,061</u>
Current levy collection percentage			<u>96.07%</u>	<u>96.85%</u>	<u>87.14%</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 of the Town of China Grove, North Carolina, as of and for the year ended June 30, 2013, 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 October 28, 2013.

#### 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 did identify certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (2013-1, 2013-2, and 2013-3).

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 and which are described in the accompanying schedule of findings and responses at items (2013-1, 2013-2, and 2013-3).

Town of China Grove's Response to Findings

The Town of China Grove's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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  
October 28, 2013

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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

### INDEPENDENT AUDITOR'S REPORT

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

#### Report on Compliance for Each Major Federal Program

We have audited the Town of China Grove, North Carolina, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of China Grove's major federal programs for the year ended June 30, 2013. The Town of China Grove's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

#### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of China Grove's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of China Grove's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Town of China Grove's compliance.

#### Opinion on Each Major Federal Program

In our opinion, the Town of China Grove complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Sherrill & Smith, CPAs, PA*

Salisbury, North Carolina  
October 28, 2013

TOWN OF CHINA GROVE, NORTH CAROLINA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 For the Year Ended June 30, 2013

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/ Pass-Through Grantor's Number	Federal (Direct & Pass-through) Expenditures	State Expenditures
<b>Federal Grants</b>				
Cash Program:				
<u>U.S. Dept. of Housing and Urban Development</u>				
<u>U.S. Dept. of Transportation</u>				
Passed-through the N.C. Department of Transportation:				
North Carolina Governor's				
Highway Safety Program				
	20.609	PT-12-03-04-05	\$ 4,633	
<u>U.S. Dept. of Justice</u>				
Bullet Proof Vest Partnership Program				
	16.607		4,636	
Noncash Program:				
<u>U.S. Dept. of Agriculture</u>				
Rural Development				
Community Facilities Loans and Grants				
Fire Station Addition/Town Hall Renovation				
	10.780	NC-97-01	515,009	
<u>U.S. Dept. of Agriculture</u>				
Rural Development				
Community Facilities Loans and Grants				
Fire Station Addition/Town Hall Renovation				
	10.766	NC-97-01	280,000	
<b>State Grants</b>				
Cash Program:				
<u>N. C. Department of Transportation</u>				
Powell Bill				
	N/A	9.90000	\$ 129,326	
Total Federal and State Assistance Programs			<u>\$ 804,278</u>	<u>\$ 129,326</u>

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

Basis of Presentation

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

Town of China Grove, North Carolina  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2013

**Section I. Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_yes    X\_no
  - Significant Deficiency(s) identified that are not considered to be material weaknesses? \_\_\_X\_yes    \_\_\_none
- reported
- Noncompliance material to financial statements noted \_\_\_yes    X\_no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_yes    X\_no
  - Significant Deficiency(s) identified that are not considered to be material weaknesses? \_\_\_yes    X\_none
- reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_yes    X\_no

Identification of major federal programs:

CFDA Numbers	Names of Federal Program or Cluster
10.780	Community Facilities Loans and Grants
10.766	Community Facilities Loans and Grants
20.609	Safety Belt Performance Grants
16.607	Bullet Proof Vest Partnership Program

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

Auditee qualified as low-risk auditee? \_\_\_yes    X\_no

State Awards

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

Town of China Grove, North Carolina  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013

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**Section II – Financial Statement Findings**

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Significant Deficiencies

**2013-1 Segregation of Duties**

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

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

Effect: Transactions could be mishandled.

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

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

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

**2013-2 Monitoring Service Provider**

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

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

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

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

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

**2013-3 Provide Oversight of the Preparation of Financial Statements**

Criteria: 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 generally accepted accounting principles. 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 generally accepted accounting principles. As such, management has requested that the auditor prepare a draft of the financial statements, including the related footnote disclosures.

Effect: Errors in the preparation of the financial statements and related disclosures could go undiscovered.

Town of China Grove, North Carolina  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013

Cause: The outsourcing of these services is not unusual in small municipalities and is a result of management's cost benefit decision to rely on the auditor's expertise rather than incurring this internal resource cost.

Recommendation: The financial statements and related disclosures should be reviewed by a designated Town representative for reasonableness.

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

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**Section III – Federal Award Findings and Questioned Costs**

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None reported

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**Section IV – State Award Findings and Questioned Costs**

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None reported.

Town of China Grove, North Carolina  
Corrective Action Plan  
For the Year Ended June 30, 2013

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**Section II. Financial Statement Findings**

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Significant Deficiencies

**2013-1 Segregation of Duties**

Name of contact person: Mary Jo Bopp, Finance Director

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

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

**2013-2 Monitoring Service Provider**

Name of contact person: Mary Jo Bopp, Finance Director

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

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

**2013-3 Provide Oversight of the Preparation of Financial Statements**

Name of contact person: Mary Jo Bopp, Finance Director

Corrective action: There is no cost effective method to prepare the financial statements. Financial statements and related disclosures provided by the auditors will be reviewed by a designated Town representative for reasonableness.

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

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**Section III – Federal Award Findings and Questioned Costs**

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None reported

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**Section IV – State Award Findings and Questioned Costs**

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None reported.

Town of China Grove, North Carolina  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2013

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**Finding 2012-1**

Status: Duties are being separated as much as possible and alternative controls have been implemented to compensate for lack of separation.

**Finding 2012-2**

Status: Reports are being reviewed by a designated Town representative for reasonableness.

**Finding 2012-3**

Status: Financial statements and related disclosures are being reviewed and approved by a designated Town representative.