

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

**For the Fiscal Year Ended
June 30, 2018**

Town Council Members:

Lee Withers, Mayor
Brandon Linn, Mayor Pro Tem
Arthur Heggins
Rodney Phillips
Charles Seaford
Steve Stroud

Administrative and Financial Staff:

Ken Deal, Town Manager
Mary Jo Bopp, Finance Officer
Pamela Mills, Town Clerk

SHERRILL & SMITH

Certified Public Accountants
A Professional Association
Salisbury, North Carolina

Town of China Grove, North Carolina

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Town Council
Town of China Grove, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of China Grove, North Carolina as of and for the year ended June 30, 2018, 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 to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of China Grove, North Carolina as of June 30, 2018, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 14, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 45 and 46 respectively, and the Law Enforcement Officers' Special Separation Allowance's schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 47 and 48, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of China Grove, North Carolina. The combining and individual fund financial statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 6, 2018 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 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
November 6, 2018

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, 2018. 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

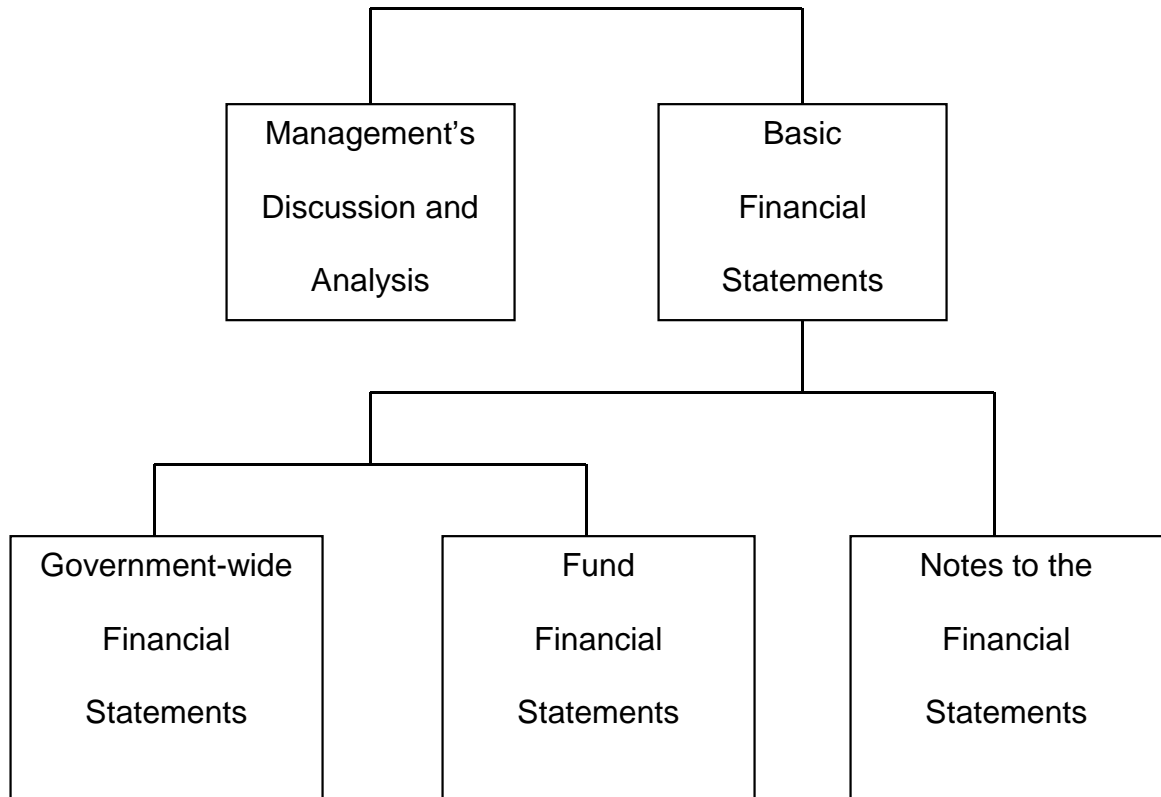
- The assets and deferred outflows of resources of the Town *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$4,114,911 (*net position*).
- The government's total net position decreased by \$ 91,851, primarily due to the acquisition of capital assets.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$ 2,483,349, a decrease of \$575,227 in comparison with the prior year. Approximately 72% of this total amount, or \$ 1,775,792 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 \$ 1,775,792 which is 41% of total general fund expenditures for the fiscal year.
- The Town's total debt decreased \$ 475,975 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 serves as an introduction to the Town of China Grove's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of China Grove.

Required Components of Annual Financial Report

Figure 1



Summary → Detail

Basic Financial Statements

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

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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 can also be found in this part of the statements.

Government-wide Financial Statements

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

The two government-wide statements report the Town's net 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 22 through 44 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 45 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 Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

The Town of China Grove's Net Position

Figure 2

	Governmental		Total	
	Activities			
	2018	2017	2018	2017
Current and other assets	\$ 4,456,255	\$ 5,351,655	\$ 4,456,255	\$ 5,351,655
Capital assets	4,247,734	4,001,857	4,247,734	4,001,857
Total deferred outflows of resources	277,412	324,310	277,412	324,310
Total assets and deferred inflows of resources	8,981,401	9,677,822	8,981,401	9,677,822
Long-term liabilities outstanding	4,451,340	4,927,315	4,451,340	4,927,315
Other liabilities	397,140	516,627	397,140	516,627
Total deferred inflows of resources	18,010	27,118	18,010	27,118
Total liabilities and deferred inflows of resources	4,866,490	5,471,060	4,866,490	5,471,060
Net position:				
Net investment in capital assets	1,993,447	1,606,252	1,993,447	1,606,252
Restricted	585,997	707,339	585,997	707,339
Unrestricted	1,535,467	1,893,171	1,535,467	1,893,171
Total net position	\$ 4,114,911	\$ 4,206,762	\$ 4,114,911	\$ 4,206,762

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 \$4,114,911 as of June 30, 2018. The Town's net position decreased by \$ 91,851 for the fiscal year ended June 30, 2018. The largest portion of net position (48%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position (14%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,535,467 is unrestricted.

Management Discussion and Analysis
Town of China Grove

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

	Governmental Activities		Total	
	2018	2017	2018	2017
Revenues:				
Program revenues:				
Charges for services	\$ 14,349	\$ 17,162	\$ 14,349	\$ 17,162
Operating grants and contributions	281,703	280,449	281,703	280,449
Capital grants and contributions	-	-	-	-
General revenues:				
Property taxes	1,818,807	1,750,218	1,818,807	1,750,218
Grants and contributions not restricted to specific programs	1,272,391	1,236,150	1,272,391	1,236,150
Other	126,037	88,532	126,037	88,532
Total revenues	<u>3,513,287</u>	<u>3,372,511</u>	<u>3,513,287</u>	<u>3,372,511</u>
Expenses:				
General government	471,897	370,886	471,897	370,886
Public safety	1,774,761	1,490,791	1,774,761	1,490,791
Transportation	259,644	258,284	259,644	258,284
Environmental protection	684,950	645,578	684,950	645,578
Economic and physical development	60,129	61,958	60,129	61,958
Cultural and recreation	232,733	217,542	232,733	217,542
Interest on long-term debt	121,024	127,029	121,024	127,029
Total expenses	<u>3,605,138</u>	<u>3,172,068</u>	<u>3,605,138</u>	<u>3,172,068</u>
change in net position	(91,851)	200,443	(91,851)	200,443
Net position, July 1	<u>4,206,762</u>	<u>4,006,319</u>	<u>4,206,762</u>	<u>4,006,319</u>
Net position, June 30	<u>\$ 4,114,911</u>	<u>\$ 4,206,762</u>	<u>\$ 4,114,911</u>	<u>\$ 4,206,762</u>

Governmental activities. Governmental activities decreased the Town's net position by \$91,851. The decrease in net position can be attributed to the increase in the Town's capital assets, Community building improvements, Hanna Park stage, Playground replacement and new equipment purchases for the all the departments.

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 \$ 1,775,792 while total fund balance reached \$ 2,474,161. 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 41% of total General Fund expenditures, while total fund balance represents 58% of that same amount.

At June 30, 2018, the governmental funds of the Town reported a combined fund balance of \$2,483,349 a 23% decrease over last year. This is the result of a net change in fund balance of \$(575,227).

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget four 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 experienced an increase in Streets maintenance related expenditures, resurfacing Centerview Street. A transfer from the Highway fund reserves increased the revenue allowing the resurfacing.

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, 2018, totals \$ 4,247,734 (net of accumulated depreciation). These assets include buildings, roads and other infrastructure, land, machinery and equipment, and vehicles.

- The Fire Department purchased a 2006 KME 81’ Tower Ladder Truck. This purchase represents the largest change in Capital Assets.
- The Town is nearing completion of the second phase of the Hanna Park remodel project, with the completion date in August of 2018. The new Veteran’s Memorial was almost completed at year end and completion will be in August of 2018. New park equipment was installed at the Community Building park in the Spring.
- The Town purchased two new vehicles this year for the Police Department.
- The Public Works Department purchased a F-450 Dump Truck with a snow plow attachment.

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

Figure 4

	Governmental Activities		Total	
	2018	2017	2018	2017
Land	\$ 50,912	\$ 50,912	\$ 50,912	\$ 50,912
Buildings	2,255,561	2,212,994	2,255,561	2,212,994
Equipment	1,367,055	1,146,073	1,367,055	1,146,073
Infrastructure	524,644	536,958	524,644	536,958
Other Improvements	49,562	54,920	49,562	54,920
Total	\$ 4,247,734	\$ 4,001,857	\$ 4,247,734	\$ 4,001,857

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, 2018, the Town had no bonded debt.

**Outstanding Debt
Figure 5**

	Governmental Activities		Total	
	2018	2017	2018	2017
Installment debt	\$ 3,790,880	\$ 4,256,413	\$ 3,790,880	\$ 4,256,413
Capital Leases	13,187	18,461	13,187	18,461
Compensated absences	133,236	107,023	133,236	107,023
Pension related debt (LGERS)	293,781	351,459	293,781	351,459
Pension related debt (LEO)	220,256	193,959	220,256	193,959
Total	\$ 4,451,340	\$ 4,927,315	\$ 4,451,340	\$ 4,927,315

Town of China Grove's Outstanding Debt

The Town's total debt decreased \$475,975 during the past fiscal year. The decrease in long term debt is due to the fact that the Town of China Grove paid off two of their installment loans.

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 \$21,319,242. The Town has \$ 0 in bonds authorized but un-issued at June 30, 2018.

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 4.4% with the State's average unemployment of 4.4%.
- China Grove's Central Business district has maintained a high occupancy rate with few vacancies. The downtown area has variety of service and retail uses providing convenient access for citizens.
- The US 29 corridor is growing and the Town anticipates accelerated growth to accompany the opening of the I-85/US 29/NC 152 interchange.
- Within the past 12 months, China Grove has experienced growth across sectors with new housing, retail and service growth.

Budget Highlights for the Fiscal Year Ending June 30, 2019

Governmental Activities: Operating revenues in the General Fund have remained fairly consistent over the past several years. The tax rate will remain at \$.58 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 \$1,834,150. This is 48% 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 \$1,265,800 or 33% of the total General Fund Revenues. Combined, these three revenue sources account for approximately 81% of the General Fund Revenues.

This General Fund budget for the upcoming year is approximately \$365,000 less than anticipated revenues from the previous year's budget. This large decrease 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 a decrease in capital outlay for this fiscal year.

Business – type Activities: The Town has turned over the Operations of the Utility System to Salisbury-Rowan Utilities.

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:

Mary Jo Bopp
Town of China Grove
Finance Officer
333 North Main St.
China Grove, NC 28023
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Fax (704) 855-1855

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2018

Exhibit 1

	Governmental Activities	Total
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,040,508	\$ 2,040,508
Taxes receivable (net)	57,206	57,206
Accrued interest receivable on taxes	14,072	14,072
Debt reimbursement receivable from City of Salisbury-current portion	209,490	209,490
Prepaid items	26,560	26,560
Due from other governments	367,859	367,859
Restricted cash and cash equivalents	400,271	400,271
Total current assets	3,115,966	3,115,966
Non-current assets:		
Debt reimbursement receivable from City of Salisbury-due in more than one year	1,340,289	1,340,289
Capital assets:		
Land, non-depreciable improvements, and construction in progress	50,912	50,912
Other capital assets, net of depreciation	4,196,822	4,196,822
Total capital assets	4,247,734	4,247,734
Total assets	8,703,989	8,703,989
Deferred Outflows of Resources		
Pension deferrals	277,412	277,412
Total deferred outflows of resources	277,412	277,412
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	119,268	119,268
Accrued interest payable	45,305	45,305
Unearned revenue	33,355	33,355
Current portion of long-term liabilities	340,328	340,328
Payable from restricted assets-Performance bonds	199,212	199,212
Long-term liabilities:		
Due in more than one year	4,111,012	4,111,012
Total liabilities	4,848,480	4,848,480
Deferred Inflows of Resources		
Pension deferrals	18,010	18,010
Total deferred inflows of resources	18,010	18,010
Net Position		
Net investment in capital assets	1,993,447	1,993,447
Restricted for:		
Stabilization by State Statute	367,844	367,844
Streets	88,935	88,935
Debt service	116,087	116,087
Other functions	13,131	13,131
Unrestricted	1,535,467	1,535,467
Total net position	\$ 4,114,911	\$ 4,114,911

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, 2018

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	\$ 471,897	\$ -	41,885	\$ -	\$ (430,012)	\$ (430,012)
Public Safety	1,774,761	3,267	120,212	-	(1,651,282)	(1,651,282)
Transportation	259,644	-	116,786	-	(142,858)	(142,858)
Environmental protection	684,950	472	2,820	-	(681,658)	(681,658)
Economic and physical development	60,129	10,485	-	-	(49,644)	(49,644)
Cultural and recreation	232,733	125	-	-	(232,608)	(232,608)
Interest on long-term debt	121,024	-	-	-	(121,024)	(121,024)
Total governmental activities (See Note 1)	\$ 3,605,138	\$ 14,349	\$ 281,703	\$ -	(3,309,086)	(3,309,086)
General revenues:						
Taxes:						
Property taxes, levied for general purpose					1,818,807	1,818,807
Grants and contributions not restricted to specific programs					1,272,391	1,272,391
Farmers Day					31,048	31,048
Unrestricted investment earnings					23,360	23,360
Insurance recovery					4,515	4,515
Miscellaneous					67,114	67,114
Total general revenues and transfers					3,217,235	3,217,235
Change in net position					(91,851)	(91,851)
Net position, beginning					4,206,762	4,206,762
Net position, ending					\$ 4,114,911	\$ 4,114,911

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, 2018

Exhibit 3

	General Fund	Capital Reserve Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,040,508	\$ -	\$ 2,040,508
Restricted cash	391,083	9,188	400,271
Taxes receivable (net)	57,206	-	57,206
Prepaid items	26,560	-	26,560
Due from other governments	367,859	-	367,859
Debt reimbursement receivable from City of Salisbury	1,549,779	-	1,549,779
Total assets	4,432,995	9,188	4,442,183
Liabilities			
Accounts payable and accrued liabilities	119,268	-	119,268
Unearned revenue	33,355	-	33,355
Performance bonds	199,212	-	199,212
Total liabilities	351,835	-	351,835
Deferred Inflows of Resources			
Property taxes receivable	57,206	-	57,206
Prepaid taxes	14	-	14
Debt reimbursement from City of Salisbury	1,549,779	-	1,549,779
Total deferred inflows of resources	1,606,999	-	1,606,999
Fund Balances			
Non Spendable			
Prepaid expenses	26,560	-	26,560
Restricted			
Stabilization by State Statute	367,844	-	367,844
Streets	88,935	-	88,935
Police-Drug enforcement	3,943	-	3,943
Debt service	116,087	-	116,087
Capital Reserve	-	9,188	9,188
Assigned			
Subsequent year's expenditures	95,000	-	95,000
Unassigned	1,775,792	-	1,775,792
Total fund balances	2,474,161	9,188	\$ 2,483,349
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,432,995	\$ 9,188	

TOWN OF CHINA GROVE, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

Exhibit 3

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

Total Fund Balance, Governmental Funds		\$ 2,483,349
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Gross capital assets at historical cost	\$ 7,244,355	
Accumulated depreciation	<u>(2,996,621)</u>	4,247,734
Deferred outflows of resources related to contributions to the pension plan in the current fiscal year are not reported in the funds		277,412
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		14,072
Earned revenues considered deferred inflows of resources in fund statements		1,606,999
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		(4,451,340)
Deferred inflows of resources related to pensions are not reported in the funds		(18,010)
Other long-term liabilities (accrued interest), are not due and payable in the current period and therefore are not reported in the funds.		<u>(45,305)</u>
Net assets of governmental activities		<u><u>\$ 4,114,911</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

Exhibit 4

	General Fund	Capital Reserve Fund	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 1,811,881	\$ -	\$ 1,811,881
Unrestricted intergovernmental	1,272,391	-	1,272,391
Restricted intergovernmental	491,192	-	491,192
Permits and fees	14,349	-	14,349
Investment earnings	23,251	108	23,359
Miscellaneous	98,162	-	98,162
Total Revenues	3,711,226	108	3,711,334
Expenditures			
Current			
General Government	429,948	-	429,948
Public safety	1,872,339	-	1,872,339
Transportation	253,406	-	253,406
Environmental protection	698,530	-	698,530
Economic and physical development	60,132	-	60,132
Cultural and recreation	382,572	-	382,572
Debt Service			
Principal retirement	470,808	-	470,808
Interest	123,341	-	123,341
Total expenditures	4,291,076	-	4,291,076
Excess (deficiency) of revenues over expenditures	(579,850)	108	(579,742)
Other financing sources (uses):			
Insurance recovery	4,515	-	4,515
Total other financing sources (uses)	4,515	-	4,515
Net change in fund balance	(575,335)	108	(575,227)
Fund balances, beginning	3,049,496	9,080	3,058,576
Fund balance, ending	\$ 2,474,161	\$ 9,188	\$ 2,483,349

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

Exhibit 4

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

Net changes in fund balances - total governmental funds		\$ (575,227)
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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	\$ 551,628	
Depreciation expense for governmental assets	<u>(305,751)</u>	245,877

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		96,875
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Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities		10,155
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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	6,926	
Change in unearned revenue for debt reimbursement-City of Salisbury	<u>(209,490)</u>	(202,564)

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	-	
Principal payments on long-term debt	470,808	
Decrease in accrued interest payable	<u>2,317</u>	473,125

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		(26,213)
Pension expense (LGERS)		(101,217)
Net pension obligation (LEOSSA)		<u>(12,662)</u>

Total changes in net assets of governmental activities		<u>\$ (91,851)</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, 2018

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
Revenues				
Ad valorem taxes	\$ 1,895,200	\$ 1,895,200	\$ 1,811,881	\$ (83,319)
Unrestricted intergovernmental	1,166,800	1,166,800	1,272,391	105,591
Restricted intergovernmental	491,950	491,950	491,192	(758)
Permits and fees	13,000	13,000	14,349	1,349
Investment earnings	13,900	13,900	23,251	9,351
Miscellaneous	61,450	61,450	98,162	36,712
Total revenues	3,642,300	3,642,300	3,711,226	68,926
Expenditures				
Current				
General government	367,100	436,871	429,948	6,923
Public safety	1,606,000	1,913,986	1,872,339	41,647
Transportation	266,700	266,700	253,406	13,294
Environmental protection	725,600	718,385	698,530	19,855
Economic and physical development	145,000	83,700	60,132	23,568
Cultural and recreational	390,400	435,558	382,572	52,986
Debt service				
Principal retirement	465,900	470,900	470,808	92
Interest	123,400	123,400	123,341	59
Total expenditures	4,090,100	4,449,500	4,291,076	158,424
Revenues over (under) expenditures	(447,800)	(807,200)	(579,850)	227,350
Other financing sources (uses):				
Insurance recovery	-	-	4,515	4,515
Total other financing sources (uses)	-	-	4,515	4,515
Fund balance appropriated	447,800	807,200	-	(807,200)
Net change in fund balance	\$ -	\$ -	(575,335)	\$ (575,335)
Fund balance, beginning			3,049,496	
Fund balance, ending			<u>\$ 2,474,161</u>	

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 Town Council. 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 non-major funds.

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

The Town reports the following major governmental funds:

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

Capital Project - Capital Reserve Fund- This fund is used to accumulate cash for future capital purchases.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of China Grove because the tax is levied by Rowan County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there 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, 2018

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at the fiscal-year end. A project ordinance is adopted for the Capital Reserve Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project 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. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, 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 considers all cash and investments to be cash and cash equivalents.

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2018

3. Restricted Assets

Cash in a Police drug account is classified as restricted cash because its use is restricted for specific purposes. The Town has a USDA loan due which requires the Town to keep an amount equal to one annual loan payment in a separate bank account. The Town has cash held in a separate account that is classified as restricted cash because it will be returned to a developer, including interest earned, upon completion of a project in the Town. Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

Town of China Grove Restricted Cash	
Governmental Activities:	
General Fund	
Police drug account	\$ 3,942
Debt service account-USDA loan	116,087
Developer performance bond	196,845
Restricted for street maintenance	74,209
Capital Reserve Fund	<u>9,188</u>
Total restricted cash	<u>\$ 400,271</u>

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, 2015. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Prepaid Items

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

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2018

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 received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical value. 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 one item that meets this criterion, contributions made to the pension plan in the 2018 fiscal year. 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 several items that meet the criterion for this category - prepaid taxes, property taxes receivable, debt reimbursement from the City of Salisbury, and pension deferrals.

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, 2018

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 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 provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

The Town of China Grove has some prepaid items that are classified as Non Spendable.

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

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

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

Restricted for Drug Enforcement – Funds seized in drug enforcement operations to be used only for drug enforcement related expenses.

Restricted for Debt Service – Funds required to be held in reserve for future debt payments.

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, 2018

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). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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.

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.

12. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees’ Retirement System (LGERS) and additions to/deductions from LGERS’ fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of China Grove’s employer contributions are recognized when due and the Town of China Grove has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

II. Stewardship, Compliance, and Accountability

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

1. Noncompliance with North Carolina General Statutes: None.

2. Contractual Violations: None.

B. Deficit Fund Balance or Net Position of Individual Funds: None.

C. Excess of Expenditures Over Appropriations: None.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018, the Town's deposits had a carrying amount of \$1,654,061 and a bank balance of \$1,698,880. Of the bank balance, \$708,557 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2018, the Town's petty cash fund totaled \$450.

2. Investments

At June 30, 2018, the Town of China Grove had \$786,268 invested with the North Carolina Capital Management Trust's Government 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, 2018 is net of an allowance for doubtful accounts of \$14,001.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 50,912	\$ -	\$ -	\$ 50,912
Total capital assets not being depreciated	50,912	-	-	50,912
Capital assets being depreciated:				
Buildings	2,789,732	98,362	-	2,888,094
Equipment	3,440,653	453,266	363,239	3,530,680
Infrastructure	615,680	-	-	615,680
Other improvements	158,989	-	-	158,989
Total capital assets being depreciated	7,005,054	551,628	363,239	7,193,443
Less accumulated depreciation for:				
Buildings	576,738	55,795	-	632,533
Equipment	2,294,580	232,284	363,239	2,163,625
Infrastructure	78,722	12,314	-	91,036
Other improvements	104,069	5,358	-	109,427
Total accumulated depreciation	3,054,109	\$ 305,751	\$ 363,239	2,996,621
Total capital assets being depreciated, net	3,950,945			4,196,822
Governmental activity capital assets, net	<u>\$ 4,001,857</u>			<u>\$ 4,247,734</u>

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

General government	\$ 31,509
Public safety	210,675
Transportation	13,334
Environmental protection	42,991
Cultural and recreation	7,242
Total depreciation expense	<u>\$ 305,751</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description- The Town of China Grove is a participating employer in 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 membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. 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, or at www.osc.nc.gov.

Benefits Provided- LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions- Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of China Grove employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The China Grove's contractually required contribution rate for the year ended June 30, 2018, was 8.250% of compensation for law enforcement officers and 7.560% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of China Grove were \$96,875 for the year ended June 30, 2018.

TOWN OF CHINA GROVE, NORTH CAROLINA
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Refunds of Contributions- Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Town reported a liability of \$293,781 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the Town's proportion was 0.019%, which was a increase of 0.002% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$101,217. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,925	\$ 8,316
Changes of assumptions	41,956	-
Net difference between projected and actual earnings on pension plan investments	71,330	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	17,154	5,779
Town contributions subsequent to the measurement date	96,875	-
Total	\$ 244,240	\$ 14,095

\$96,875 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 16,588
2020	88,159
2021	47,502
2022	(18,979)
2023	-
Thereafter	-

TOWN OF CHINA GROVE, NORTH CAROLINA
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For the Year Ended June 30, 2018

Actuarial Assumptions- The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

TOWN OF CHINA GROVE, NORTH CAROLINA
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Discount rate. The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Town's proportionate share of the net pension liability (asset)	\$ 881,938	\$ 293,781	\$ 197,144

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. 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, 2017 the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	13
Total	14

TOWN OF CHINA GROVE, NORTH CAROLINA
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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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

3. Actuarial Assumptions:

The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate used to measure the total pension liability is the S&P Municipal Bond 20 Year High Grade Rate Index.

Mortality rates are based on the RP-2014 base rates projected to the valuation date using MP-2015.

4. Contributions- The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by the employees. The Town's obligation to contribute to the plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$20,309 as benefits came due for the reporting period.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At June 30, 2018, the Town reported a total pension liability of \$220,256. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$22,816.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,130	\$ -
Changes of assumptions	13,887	3,901
Benefit payments and administrative expenses subsequent to the measurement date	10,155	-
Total	\$ 33,172	\$ 3,901

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\$10,155 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$	773
2020		773
2021		773
2022		773
2023		773
Thereafter		36

\$10,155 paid as benefits came due subsequent to the measurement date and are reported as deferred outflows of resources.

Sensitivity of the Town's total pension liability to changes in the discount rate: The following presents the Town's total pension liability calculated using the discount rate of 3.16 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.16 percent) or 1-percentage point higher (4.16 percent) than the current rate:

	1% Decrease (2.16%)	Discount Rate (3.16%)	1% Increase (4.16%)
Total pension liability	\$ 243,887	\$ 220,256	\$ 198,946

Schedule of Changes in Total Pension Liability
 Law Enforcement Officers' Special Separation Allowance

	2018
Beginning balance	\$ 193,959
Service cost	12,573
Interest on the total pension liability	7,095
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	10,685
Changes of assumptions or other inputs	16,253
Benefit payments	(20,309)
Other changes	-
Ending balance of the total pension liability	<u>\$ 220,256</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
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The plan currently uses mortality tables that vary with age and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2014.

Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources of Related to Pensions

Following is information related to the proportionate share of pension expense for all pension plans:

	LGERS	LEOSSA	TOTAL
Pension Expense	\$101,220	\$22,816	\$124,036
Pension Liability	293,781	220,256	514,037
Proportionate share of the net pension liability	0.01923%	n/a	
Deferred of Outflows of Resources			
Difference between expected and actual experience	16,925	9,130	26,055
Changes of assumptions	41,956	13,887	55,843
Net difference between projected and actual earnings on plan investments	71,330	-	71,330
Changes in proportion and differences between contributions and proportionate share of contributions	17,154	-	17,154
Benefit payments and administrative costs paid subsequent to the measurement date	96,875	10,155	107,030
Deferred Inflows of Resources			
Differences between expected and actual experience	8,316	-	8,316
Changes in assumptions	-	3,901	3,901
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	5,779	-	5,779

c. Supplemental Retirement Income Plan

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 all full-time employees of 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. In addition to this requirement, the Town has elected to contribute to the Plan an amount equal to 5 percent of the salary of each full-time employee not engaged in law enforcement. All amounts contributed are vested immediately. Employees may make voluntary contributions to the plan.

The Town made contributions of \$58,990 for the reporting year. No amounts were forfeited.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

2. 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. Because all death benefit payments are made from the Death Benefit Plan and not by the town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources is composed of the following:

	Exhibit 1
Differences between expected and actual experience	\$ 26,055
Changes of assumptions	55,843
Net difference between projected and actual earnings on pension plan investments	71,330
Changes in proportion and differences between Town contributions and proportionate share of contributions	17,154
Town contributions subsequent to the measurement date	96,875
Benefit payments and administrative expenses subsequent to the measurement date-LEOSSA	10,155
	\$ 277,412

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

	Exhibit 1	Exhibit 3
Prepaid taxes	\$ 14	\$ 14
Property taxes receivable	-	57,206
Debt reimbursement from City of Salisbury	-	1,549,779
Differences between expected and actual experience	8,316	-
Changes of assumptions	3,901	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,779	-
	\$ 18,010	\$ 1,606,999

TOWN OF CHINA GROVE, NORTH CAROLINA
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For the Year Ended June 30, 2018

4. 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.

5. Reconciliation of Powell Bill Expenditures

The following is a reconciliation of Powell Bill expenditures to the Powell Bill report filed:

Per financial statements-transportation	\$ 253,406
Sales tax refund requested	<u>5,280</u>
Per Powell Bill Expenditures Report	<u><u>\$ 258,686</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
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 For the Year Ended June 30, 2018

6. 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.

During the fiscal year ended June 30, 2016, the Town leased two copiers, one for administrative department use and one for police department use. Each lease requires 60 minimum monthly payments of \$219.78 beginning in February 2016. The copier agreements allow for the purchase of the copiers at the end of the lease for fair market value.

The following is an analysis of the assets recorded under capital leases at June 30, 2018:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 26,374	\$ 13,187	\$ 13,187
Total	<u>\$ 26,374</u>	<u>\$ 13,187</u>	<u>\$ 13,187</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018 are as follows:

Year Ending June 30	
2019	\$ 5,275
2020	5,275
2021	<u>2,637</u>
Total minimum lease payments	13,187
Less amount representing interest	<u>-</u>
Present value of the minimum lease payments	<u>\$ 13,187</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2018

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, 2018 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2019	\$ 49,290	\$ 66,797
2020	51,015	65,072
2021	52,800	63,287
2022	54,648	61,439
2023	56,561	59,526
2024-2028	313,922	266,513
2029-2033	372,841	207,594
2034-2038	442,818	137,617
2039-2043	514,602	54,507
	<u>\$1,908,497</u>	<u>\$ 982,352</u>

c. 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, 2018 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2019	\$ 83,907	\$ 10,782
2020	83,907	8,626
2021	83,907	6,469
2022	83,907	4,313
2023	83,906	2,156
	<u>\$ 419,534</u>	<u>\$ 32,346</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

d. 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 is to 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, 2018 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2019	\$ 125,583	\$ 26,052
2020	125,583	23,157
2021	125,583	20,263
2022	125,583	17,368
2023	125,583	14,473
2024-2027	502,330	28,948
	<u>\$1,130,245</u>	<u>\$ 130,261</u>

e. Installment Purchase

The Town borrowed \$400,000 from a local financial institution to purchase a fire truck during the year ended June 30, 2017. The agreement calls for 26 quarterly payments beginning April 2017. The loan has an interest rate of 3.35%.

The future minimum payments of the installment purchase as of June 30, 2018 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2019	\$ 55,965	\$ 10,592
2020	57,890	8,666
2021	59,881	6,675
2022	61,941	4,615
2023	64,072	2,484
2024	32,855	420
	<u>\$ 332,604</u>	<u>\$ 33,452</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
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f. 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 did not call for interest to be paid or state an interest rate, therefore the Town has treated the payments as principal only. The final payment was made during the year ended June 30, 2018

At June 30, 2018 the Town of China Grove, North Carolina had a legal debt margin of \$21,319,242.

g. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 4,256,413	\$ -	\$ 465,533	\$ 3,790,880	\$ 314,744
Capitalized leases	18,461	-	5,274	13,187	5,275
Compensated absences	107,023	26,213	-	133,236	-
Net pension benefit (LGERS)	351,459	-	57,678	293,781	-
Net pension obligation (LEO)	193,959	26,297	-	220,256	20,309
Governmental activities long-term liabilities	<u>\$ 4,927,315</u>	<u>\$ 52,510</u>	<u>\$ 528,485</u>	<u>\$ 4,451,340</u>	<u>\$ 340,328</u>

C. Net Investment in Capital Assets

Capital assets	\$ 4,247,735
Less:	
Capital leases	13,187
Town Hall/Fire Dept USDA loans	1,908,497
Loan to purchase fire truck	332,604
	<u> </u>
Net investment in capital assets	<u>\$ 1,993,447</u>

D. 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	\$ 2,474,161
Less:	
Prepaid items	26,560
Stabilization by State Statute	367,844
Streets (Powell Bill funds)	88,935
Police-Drug enforcement	3,943
Debt service	116,087
Appropriated Fund Balance in 2018-19 budget	95,000
Working Capital/Fund Balance Policy	<u>-</u>
Remaining Fund Balance	<u>\$ 1,775,792</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018, 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, 2018. 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 November 6, 2018, the date the financial statements were available to be issued.

Town of China Grove, North Carolina
Town of China Grove's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Five Fiscal Years

Local Government Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
China Grove's proportion of the net pension liability (asset) (%)	1.92300%	0.01656%	0.01438%	0.01569%	0.01600%
China Grove's proportion of the net pension liability (asset) (\$)	\$ 293,781	\$ 351,459	\$ 64,537	\$ (92,531)	\$ 192,861
China Grove's covered-employee payroll	\$ 1,067,802	\$ 917,486	\$ 817,698	\$ 805,672	\$ 791,217
China Grove's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	27.51%	38.31%	7.89%	(11.48%)	24.38%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	91.47%	98.09%	102.64%	94.35%

Town of China Grove, North Carolina
Town of China Grove's Contributions
Required Supplementary Information
Last Five Fiscal Years

Local Government Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 96,875	\$ 81,746	\$ 63,663	\$ 59,213	\$ 57,818
Contributions in relation to the contractually required contribution	<u>96,875</u>	<u>81,746</u>	<u>63,663</u>	<u>59,213</u>	<u>57,818</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
China Grove's covered-employee payroll	\$ 1,227,513	\$ 1,067,802	\$ 917,486	\$ 817,698	\$ 805,672
Contributions as a percentage of covered-employee payroll	7.89%	7.66%	6.94%	7.24%	7.18%

Town of China Grove, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2018

	2018	2017
Beginning balance	\$ 193,959	\$ 200,663
Service Cost	12,573	12,251
Interest on the total pension liability	7,095	6,801
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	10,685	-
Changes of assumptions or other inputs	16,253	(5,447)
Benefit payments	(20,309)	(20,309)
Other changes	-	-
	\$ 220,256	\$ 193,959
Ending balance of the total pension liability	\$ 220,256	\$ 193,959

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

Town of China Grove, North Carolina
 Schedule of Total Pension Liability as a Percentage of Covered Payroll
 Law Enforcement Officers' Special Separation Allowance
 June 30, 2018

	2018	2017
Total pension liability	\$ 220,256	\$ 193,959
Covered payroll	545,544	502,400
Total pension liability as a percentage of covered payroll	40.37%	38.61%

Notes to the schedules:

The Town of China Grove has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

December 31, 2017 Measurement Date: The Municipal Bond Index Rate decreased from 3.86% to 3.16%

December 31, 2016 Measurement Date: The Municipal Bond Index Rate increased from 3.57% to 3.86%

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
Revenues			
Ad valorem taxes			
Taxes	\$ 1,875,200	\$ 1,802,652	\$ (72,548)
Penalties and interest	20,000	9,229	(10,771)
Total	<u>1,895,200</u>	<u>1,811,881</u>	<u>(83,319)</u>
Unrestricted intergovernmental			
Local option sales taxes	820,000	936,796	116,796
Telecommunications sales tax	39,000	37,369	(1,631)
Utility sales tax	246,000	233,063	(12,937)
Piped natural gas sales tax	8,000	11,908	3,908
Video franchise fee	22,000	22,130	130
Beer and wine tax	19,800	18,386	(1,414)
ABC profit distribution	12,000	12,739	739
Total	<u>1,166,800</u>	<u>1,272,391</u>	<u>105,591</u>
Restricted intergovernmental			
Powell Bill allocation	116,200	116,786	586
Fire tax	5,400	4,664	(736)
Fire tax supplement	7,750	7,548	(202)
Salisbury/Rowan Schools-SRO	108,500	106,767	(1,733)
Debt reimbursement from City of Salisbury	251,400	251,375	(25)
Public safety grants	-	1,232	1,232
Solid waste disposal	2,700	2,820	120
Total	<u>491,950</u>	<u>491,192</u>	<u>(758)</u>
Permits and fees			
Police fines and citations	3,000	3,267	267
Zoning and development fees	-	9,985	9,985
Code enforcement revenue	-	500	500
Community building rent	10,000	125	(9,875)
Storm water review fees	-	472	472
Total	<u>13,000</u>	<u>14,349</u>	<u>1,349</u>
Investment earnings	<u>13,900</u>	<u>23,251</u>	<u>9,351</u>
Miscellaneous			
Farmers Day revenue	27,950	31,048	3,098
Sale of materials and fixed assets	12,000	34,900	22,900
Cable TV franchise fee	7,000	3,141	(3,859)
Parade entry fees	5,000	6,395	1,395
CIG sponsors/donations	4,000	8,675	4,675
Miscellaneous revenue	5,500	14,003	8,503
Total	<u>61,450</u>	<u>98,162</u>	<u>36,712</u>
Total revenues	<u>\$ 3,642,300</u>	<u>\$ 3,711,226</u>	<u>\$ 68,926</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
Expenditures			
General government			
Governing body			
Salaries and wages	\$ 8,200	\$ 8,380	\$ (180)
Payroll tax	600	641	(41)
Materials and supplies	1,500	233	1,267
Travel and schools	1,000	929	71
Advertising	-	1,089	(1,089)
Membership and dues	7,000	7,637	(637)
Miscellaneous	1,500	1,136	364
Community appearance	8,000	469	7,531
Elections	2,600	1,851	749
Grant match bus service	7,500	7,500	-
Donations	7,000	6,350	650
	<u>44,900</u>	<u>36,215</u>	<u>8,685</u>
Administration			
Salaries and wages	206,700	207,151	(451)
Salaries and wages-overtime	3,000	2,819	181
Payroll tax	16,700	15,539	1,161
Employee benefits	39,271	38,324	947
Workers compensation	700	717	(17)
Professional fees-accounting	17,000	16,500	500
Professional fees-legal	6,000	3,156	2,844
Office supplies	2,000	2,241	(241)
Materials and supplies	500	495	5
Contracted services	5,000	5,054	(54)
Technical support	19,000	22,855	(3,855)
Travel and schools	3,000	1,561	1,439
Telephone and postage	4,500	4,841	(341)
Utilities	8,200	10,570	(2,370)
Printing and codification	4,000	5,011	(1,011)
Repair and maintenance-building	5,000	2,286	2,714
Bank service fees	200	122	78
Memberships and dues	400	580	(180)
Miscellaneous	3,500	5,024	(1,524)
Leases and maintenance	500	624	(124)
Insurance	17,800	18,351	(551)
Rowan County tax services	23,000	26,943	(3,943)
Capital outlay	6,000	2,969	3,031
	<u>391,971</u>	<u>393,733</u>	<u>(1,762)</u>
Total general government	<u>\$ 436,871</u>	<u>\$ 429,948</u>	<u>\$ 6,923</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
Public safety			
Police department			
Salaries and wages	\$ 540,700	\$ 526,534	\$ 14,166
School resource officers	86,500	82,289	4,211
Salaries and wages-overtime	5,000	8,051	(3,051)
Payroll tax	48,000	44,435	3,565
Employee benefits	168,243	157,738	10,505
Workers compensation	17,500	17,519	(19)
Materials and supplies	8,000	13,282	(5,282)
Fuel and oil	20,000	24,713	(4,713)
Uniforms	8,000	11,966	(3,966)
Weapons	4,000	4,094	(94)
Contract services	13,000	11,682	1,318
Technical support	8,000	8,147	(147)
Travel and schools	5,000	5,604	(604)
Telephone and postage	1,600	1,760	(160)
Cell phones and pagers	12,000	12,972	(972)
Utilities	7,800	7,840	(40)
Repairs and maintenance	20,000	17,623	2,377
Repairs and maintenance-building	7,000	4,405	2,595
Memberships and dues	600	286	314
Miscellaneous	3,000	4,425	(1,425)
Insurance	21,500	20,635	865
Special investigations	-	2,000	(2,000)
Capital outlay	40,000	39,594	406
Total police department	<u>\$ 1,045,443</u>	<u>\$ 1,027,594</u>	<u>\$ 17,849</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
Fire department			
Salaries and wages-regular	\$ 210,600	\$ 213,610	\$ (3,010)
Salaries and wages-overtime	5,000	3,799	1,201
Salaries and wages-part time	33,000	23,653	9,347
Salaries and wages-per call	1,000	904	96
Payroll tax	17,900	17,610	290
Employee benefits	67,043	66,035	1,008
Workers compensation	7,000	8,191	(1,191)
Food and provisions	500	561	(61)
Medical supplies	2,500	2,058	442
Material and supplies	10,000	12,724	(2,724)
Fuel and oil	6,000	9,555	(3,555)
Uniforms	4,000	2,475	1,525
Turn out gear	20,000	16,773	3,227
Contracted services	36,000	36,311	(311)
Travel and schools	4,000	1,879	2,121
Telephone and postage	1,500	1,975	(475)
Cell phones and pagers	1,000	2,833	(1,833)
Utilities	8,300	7,691	609
Repairs and maintenance	46,000	48,442	(2,442)
Repairs and maintenance-buildings	6,300	8,011	(1,711)
Memberships and dues	300	300	-
Miscellaneous	2,000	248	1,752
Insurance	18,600	18,075	525
Capital outlay	360,000	341,032	18,968
	<u>868,543</u>	<u>844,745</u>	<u>23,798</u>
Total fire department			
	<u>868,543</u>	<u>844,745</u>	<u>23,798</u>
Total public safety	<u>1,913,986</u>	<u>1,872,339</u>	<u>41,647</u>
Transportation			
Streets and highways			
Professional fees	1,000	-	1,000
Repairs and maintenance	15,000	21,424	(6,424)
Drainage	2,000	-	2,000
Miscellaneous	1,000	-	1,000
Powell-new equipment	6,500	-	6,500
Paving	228,200	223,982	4,218
Right of way	5,000	904	4,096
Capital outlay	8,000	7,096	904
	<u>266,700</u>	<u>253,406</u>	<u>13,294</u>
Total transportation	<u>\$ 266,700</u>	<u>\$ 253,406</u>	<u>\$ 13,294</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
Environmental protection			
Public works			
Employee wages-regular	\$ 212,100	\$ 209,090	\$ 3,010
Employee wages-overtime	12,000	5,929	6,071
Payroll taxes	17,100	16,172	928
Employee benefits	60,485	60,228	257
Workers compensation	8,700	8,904	(204)
Materials and supplies	8,000	7,749	251
Fuel and oil	10,000	13,154	(3,154)
Uniforms	2,000	1,432	568
Safety equipment and materials	200	834	(634)
Contracted services	1,500	1,059	441
Travel and schools	100	150	(50)
Telephone and postage	1,500	1,529	(29)
Cell phones and pagers	3,000	3,759	(759)
Utilities	5,200	5,958	(758)
Street lights	57,000	46,905	10,095
Repairs and maintenance	22,000	19,254	2,746
Repairs and maintenance-buildings	500	6,181	(5,681)
Memberships and dues	200	112	88
Miscellaneous	300	71	229
Equipment rental	1,000	135	865
Insurance	10,000	10,406	(406)
Garbage and recycling contract	190,000	182,173	7,827
Landfill charges	28,000	34,713	(6,713)
Stormwater expenses	1,500	1,593	(93)
Capital outlay	66,000	61,040	4,960
Total environmental protection	718,385	698,530	19,855
Economic and physical development			
Planning			
Salaries and wages-part time	24,000	23,209	791
Payroll tax	1,300	1,774	(474)
Workers compensation insurance	-	1,003	(1,003)
Professional fees - planner	4,200	4,167	33
Professional fees	-	490	(490)
Materials and supplies	7,500	3,831	3,669
Fuel	2,000	219	1,781
Contracted services	25,000	9,398	15,602
Technology	7,200	5,415	1,785
Travel and schools	1,500	881	619
Telephone and postage	1,500	1,499	1
Repairs and maintenance	1,500	300	1,200
Advertising	1,500	2,076	(576)
Memberships and dues	-	342	(342)
Miscellaneous	500	58	442
Tourism and economic development	6,000	5,470	530
Total economic and physical development	\$ 83,700	\$ 60,132	\$ 23,568

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
Cultural and recreation			
Recreation			
Salaries & wages-regular	\$ 49,200	\$ 48,629	\$ 571
Salaries & wages-overtime	1,500	3,021	(1,521)
Payroll tax	3,900	3,899	1
Employee benefits	12,958	13,167	(209)
Materials and supplies	-	294	(294)
Fuel and oil	200	137	63
Contracted services	35,000	35,164	(164)
Christmas activities	5,000	5,163	(163)
Christmas in the Grove	10,000	9,746	254
Community building expenses	97,000	97,129	(129)
Parade expenses	4,500	4,382	118
Events misc expense	10,000	7,263	2,737
Travel	3,000	3,081	(81)
Telephone and postage	700	825	(125)
Utilities	8,200	9,140	(940)
Repair and maintenance	-	505	(505)
Advertising	4,000	2,387	1,613
Membership and dues	300	174	126
Miscellaneous	400	385	15
Insurance	5,700	5,960	(260)
Playground expense	108,000	74,196	33,804
Little League	6,000	3,168	2,832
Capital outlay	40,000	26,312	13,688
Total recreation	405,558	354,127	51,431
Farmers Day			
Materials and supplies	3,000	2,612	388
Travel	400	20	380
Farmers Day advertising	1,000	1,293	(293)
Miscellaneous	1,500	1,833	(333)
Donations	-	600	(600)
Entertainment	9,000	8,475	525
Sount equipment & stage	5,000	4,000	1,000
Fireworks	3,500	3,500	-
T-shirts	3,500	3,362	138
Rentals	2,000	1,798	202
Rowan Septic	1,100	952	148
Total Farmers Day	30,000	28,445	1,555
Total cultural and recreation	435,558	382,572	52,986

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Debt service			
Principal retirement	470,900	470,808	92
Interest	<u>123,400</u>	<u>123,341</u>	<u>59</u>
Total debt service	<u>594,300</u>	<u>594,149</u>	<u>151</u>
Total expenditures	<u>4,449,500</u>	<u>4,291,076</u>	<u>158,424</u>
Revenues over (under) expenditures	<u>\$ (807,200)</u>	<u>\$ (579,850)</u>	<u>\$ 227,350</u>
Other financing sources (uses)			
Insurance recovery	<u>\$ -</u>	<u>\$ 4,515</u>	<u>\$ 4,515</u>
Total other financing sources (uses)	<u>-</u>	<u>4,515</u>	<u>4,515</u>
Fund balance appropriated	<u>807,200</u>	<u>-</u>	<u>(807,200)</u>
Net change in fund balance	<u><u>\$ -</u></u>	<u><u>(575,335)</u></u>	<u><u>\$ (575,335)</u></u>
Fund balances			
Fund balance, beginning		<u>3,049,496</u>	
Fund balance, ending		<u><u>\$ 2,474,161</u></u>	

TOWN OF CHINA GROVE, NORTH CAROLINA
 CAPITAL PROJECT - CAPITAL RESERVE FUND
 SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 From Inception and For the Year Ended June 30, 2018

	Budget	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues					
Interest	\$ 15,000	\$ 18,480	\$ 108	\$ 18,588	\$ 3,588
Total revenues	15,000	18,480	108	18,588	3,588
Other financing sources (uses)					
Transfer from General Fund	180,000	180,000	-	180,000	-
Transfer to General Fund	(195,000)	(189,400)	-	(189,400)	5,600
Total other financing sources (uses)	(15,000)	(9,400)	-	(9,400)	5,600
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 9,080	\$ 108	\$ 9,188	\$ 9,188

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2018

Fiscal Year	Uncollected Balance June 30, 2017	Additions	Collections and Credits	Uncollected Balance June 30, 2018
2017-2018	\$ -	\$ 1,824,250	\$ 1,792,468	\$ 31,782
2016-2017	25,126	-	15,128	9,998
2015-2016	9,827	-	2,691	7,136
2014-2015	5,804	-	756	5,048
2013-2014	5,708	-	1,102	4,606
2012-2013	4,742	-	1,023	3,719
2011-2012	4,011	-	431	3,580
2010-2011	2,567	-	592	1,975
2009-2010	1,797	-	79	1,718
2008-2009	1,693	-	48	1,645
2007-2008	1,779	-	1,779	-
	<u>\$ 63,054</u>	<u>\$ 1,824,250</u>	<u>\$ 1,816,097</u>	71,207

Less allowance for uncollectible accounts:

General Fund

14,001

Ad valorem taxes receivable-net

57,206

Reconcilement with revenues:

Ad valorem taxes - General Fund

1,811,881

Reconciling items

Interest collected

(9,229)

Discounts allowed

11,590

Taxes written off

1,855

Total collections and credits

\$ 1,816,097

TOWN OF CHINA GROVE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Year Ended June 30, 2018

	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	\$314,449,460	\$.58	\$1,824,970	\$ 1,648,035	\$ 176,935
Penalties	-		940	940	
Total	<u>314,449,460</u>		<u>1,825,910</u>	<u>1,648,975</u>	<u>176,935</u>
Abatements	<u>(408,103)</u>		<u>(1,660)</u>	<u>(791)</u>	<u>(869)</u>
Total property valuation	<u>\$314,041,357</u>				
Net levy			1,824,250	1,648,184	176,066
Uncollected taxes at June 30, 2018			<u>(31,782)</u>	<u>(31,319)</u>	<u>(463)</u>
Current year's taxes collected			<u>\$1,792,468</u>	<u>\$ 1,616,865</u>	<u>\$ 175,603</u>
Current levy collection percentage			<u>98.26%</u>	<u>98.10%</u>	<u>99.74%</u>

SHERILL & SMITH, CPAs, PA

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of the Town of China Grove, North Carolina, as of and for the year ended June 30, 2018, 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 November 6, 2018.

Internal Control Over Financial Reporting

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

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

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

Provide Oversight of the Preparation of Financial Statements

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

Monitoring Service Provider

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of China Grove's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

Sherrill & Smith, CPAs, PA

Salisbury, North Carolina
November 6, 2018