

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

**For the Fiscal Year Ended
June 30, 2019**

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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June 30, 2019

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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, 2019, 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, 2019, 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 14, 2019 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 14, 2019

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, 2019. 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

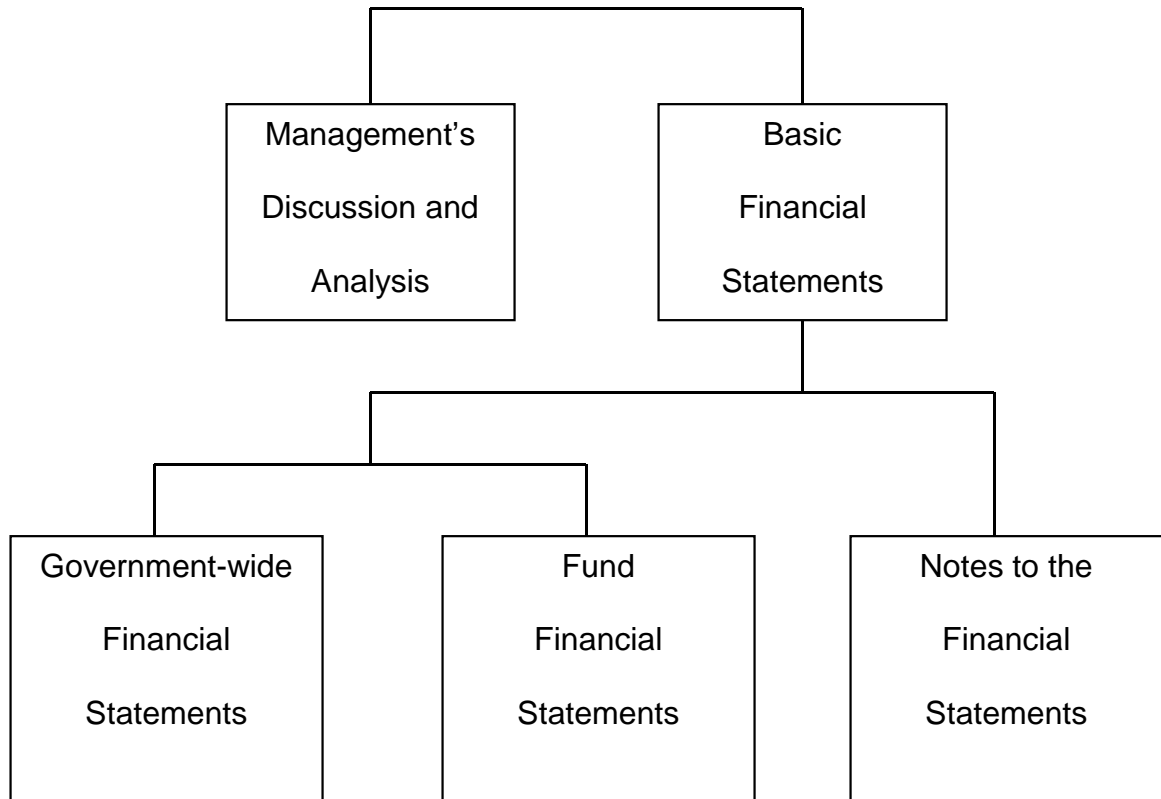
- The assets and deferred outflows of resources of the Town *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$4,470,079 (*net position*).
- The government's total net position increased by \$ 355,168, primarily due to increased revenue.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$ 2,740,604, an increase of \$247,871 in comparison with the prior year. Approximately 76% of this total amount, or \$ 2,070,268 is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 2,070,268 which is 53% of total general fund expenditures for the fiscal year.
- The Town's total debt decreased \$ 205,214 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 two parts to the Fund Financial Statements: 1) the governmental funds statements and 2) the budgetary comparison statements.

Management Discussion and Analysis Town of China Grove

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes 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 show the governmental activities of the Town. The governmental activities include the Town's basic services such as public safety, parks and recreation, and general administration. Mostly property taxes, intergovernmental payments, and state and federal grant funds finance these activities. The Town of China Grove does not have any business-type activities or 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 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

Management Discussion and Analysis
Town of China Grove

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

	Activities		Total	
	2019	2018	2019	2018
Current and other assets	\$ 4,495,919	\$ 4,456,255	\$ 4,495,919	\$ 4,456,255
Capital assets	4,386,983	4,247,734	4,386,983	4,247,734
Total deferred outflows of resources	467,706	277,412	467,706	277,412
Total assets and deferred inflows of resources	9,350,608	8,981,401	9,350,608	8,981,401
Long-term liabilities outstanding	4,478,984	4,451,340	4,478,984	4,451,340
Other liabilities	383,193	397,140	383,193	397,140
Total deferred inflows of resources	18,352	18,010	18,352	18,010
Total liabilities and deferred inflows of resources	4,880,529	4,866,490	4,880,529	4,866,490
Net position:				
Net investment in capital assets	2,128,410	1,993,447	2,128,410	1,993,447
Restricted	644,327	585,997	644,327	585,997
Unrestricted	1,697,342	1,535,467	1,697,342	1,535,467
Total net position	\$ 4,470,079	\$ 4,114,911	\$ 4,470,079	\$ 4,114,911

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 \$4,470,079 as of June 30, 2019. The Town's net position increased by \$ 355,168 for the fiscal year ended June 30, 2019. 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 \$1,697,342 is unrestricted.

Management Discussion and Analysis
Town of China Grove

Town of China Grove's Changes in Net position

Figure 3

	Governmental Activities		Total	
	2019	2018	2019	2018
Revenues:				
Program revenues:				
Charges for services	\$ 19,480	\$ 14,349	\$ 19,480	\$ 14,349
Operating grants and contributions	309,567	281,703	309,567	281,703
Capital grants and contributions	35,000	-	35,000	-
General revenues:				
Property taxes	1,882,199	1,818,807	1,882,199	1,818,807
Grants and contributions not restricted to specific programs	1,347,609	1,272,391	1,347,609	1,272,391
Other	381,281	126,037	381,281	126,037
Total revenues	3,975,136	3,513,287	3,975,136	3,513,287
Expenses:				
General government	527,791	471,897	527,791	471,897
Public safety	1,835,349	1,774,761	1,835,349	1,774,761
Transportation	106,698	259,644	106,698	259,644
Environmental protection	708,853	684,950	708,853	684,950
Economic and physical development	76,554	60,129	76,554	60,129
Cultural and recreation	250,806	232,733	250,806	232,733
Interest on long-term debt	113,917	121,024	113,917	121,024
Total expenses	3,619,968	3,605,138	3,619,968	3,605,138
change in net position	355,168	(91,851)	355,168	(91,851)
Net position, July 1	4,114,911	4,206,762	4,114,911	4,206,762
Net position, June 30	\$ 4,470,079	\$ 4,114,911	\$ 4,470,079	\$ 4,114,911

Management Discussion and Analysis
Town of China Grove

Governmental activities. Governmental activities increased the Town's net position by \$355,168. The increase in net position is a result of conservative budgeting, increased revenue, and growth in housing and commercial businesses.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$ 2,070,628 while total fund balance reached \$ 2,731,220. 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 53% of total General Fund expenditures, while total fund balance represents 70% of that same amount.

At June 30, 2019, the governmental funds of the Town reported a combined fund balance of \$2,740,604 a 10% increase over last year. This is the result of a net change in fund balance of \$257,255.

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

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, 2019, totals \$ 4,386,983 (net of accumulated depreciation). These assets include buildings, roads and other infrastructure, land, machinery and equipment, and vehicles.

- The Town completed of the second phase of the Hanna Park remodel project, with the addition of the stage roof.
- The Community Building was remodeled adding new bathrooms, flooring, fans, and new Kitchen equipment.
- The new Veteran’s Memorial was also completed and dedicated in May 2019.
- New park equipment was installed at the West Haven Park. West Haven and Village Grove Park were both revitalized with borders and new safety cushioning.
- The Town purchased two new vehicles this year for the Police Department.
- The Public Works Department purchased a F-150 Service Truck.

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

Figure 4

	Governmental Activities		Total	
	2019	2018	2019	2018
Land	\$ 146,437	\$ 50,912	\$ 146,437	\$ 50,912
Buildings	2,433,638	2,255,561	2,433,638	2,255,561
Equipment	1,250,374	1,367,055	1,250,374	1,367,055
Infrastructure	512,330	524,644	512,330	524,644
Other Improvements	44,204	49,562	44,204	49,562
Total	\$ 4,386,983	\$ 4,247,734	\$ 4,386,983	\$ 4,247,734

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

Long-term Liabilities. As of June 30, 2019, the Town had no bonded debt.

Outstanding Long-term Liabilities

Figure 5

Governmental
Activities

	Governmental Activities		Total	
	2019	2018	2019	2018
Installment debt	\$ 3,590,941	\$ 3,790,880	\$ 3,590,941	\$ 3,790,880
Capital Leases	7,912	13,187	7,912	13,187
Compensated absences	128,044	133,236	128,044	133,236
Net pension liability (LGERS)	531,879	293,781	531,879	293,781
Net pension liability (LEO)	220,208	220,256	220,208	220,256
Total	\$ 4,478,984	\$ 4,451,340	\$ 4,478,984	\$ 4,451,340

Town of China Grove’s Outstanding Long-term Liabilities

The Town’s total outstanding long-term liabilities increased by \$27,644 during the past fiscal year. The key factor in this increase in long-term liabilities is an increase of \$238,098 in the net pension liability for the Local Government Employees Retirement System (LGERS). The increase is offset by a reduction of \$199,939 in installment debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for Town of China Grove is \$22,290,465. The Town has no bonds authorized but unissued at June 30, 2019.

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 4.1% with the State's average unemployment of 3.9%.
- China Grove's Central Business district has maintained a high occupancy rate with few vacancies. The downtown area has a 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, 2020

Governmental Activities: Operating revenues in the General Fund have remained fairly consistent over the past several years. The tax rate decreased to remain revenue neutral at \$.54 per \$100 of value. The current trend is that the Town is relying more and more on ad valorem tax revenues. Total property tax revenues are anticipated to be \$1,872,750. This is 50% 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 \$1,353,100 or 36% of the total General Fund Revenues. Combined, these three revenue sources account for approximately 86% of the General Fund Revenues.

This General Fund budget for the upcoming year is approximately \$158,400 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:

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

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2019

Exhibit 1

	Governmental Activities	Total
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,230,398	\$ 2,230,398
Taxes receivable (net)	59,061	59,061
Accrued interest receivable on taxes	15,670	15,670
Debt reimbursement receivable from City of Salisbury-current portion	209,490	209,490
Prepaid items	25,649	25,649
Due from other governments	384,245	384,245
Restricted cash and cash equivalents	440,606	440,606
Total current assets	3,365,119	3,365,119
Non-current assets:		
Debt reimbursement receivable from City of Salisbury-due in more than one year	1,130,800	1,130,800
Capital assets:		
Land, non-depreciable improvements, and construction in progress	146,437	146,437
Other capital assets, net of depreciation	4,240,546	4,240,546
Total capital assets	4,386,983	4,386,983
Total assets	8,882,902	8,882,902
Deferred Outflows of Resources		
Pension deferrals	467,706	467,706
Total deferred outflows of resources	467,706	467,706
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	109,890	109,890
Accrued interest payable	42,989	42,989
Unearned revenue	33,185	33,185
Current portion of long-term liabilities	372,091	372,091
Payable from restricted assets-Performance bonds	197,129	197,129
Long-term liabilities:		
Due in more than one year	4,106,893	4,106,893
Total liabilities	4,862,177	4,862,177
Deferred Inflows of Resources		
Pension deferrals	18,352	18,352
Total deferred inflows of resources	18,352	18,352
Net Position		
Net investment in capital assets	2,128,410	2,128,410
Restricted for:		
Stabilization by State Statute	384,153	384,153
Streets	113,121	113,121
Debt service	116,087	116,087
Other functions	30,966	30,966
Unrestricted	1,697,342	1,697,342
Total net position	\$ 4,470,079	\$ 4,470,079

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, 2019

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	\$ 527,791	\$ -	\$ 36,834	\$ -	\$ (490,957)	\$ (490,957)
Public Safety	1,835,349	4,988	153,930	-	(1,676,431)	(1,676,431)
Transportation	106,698	-	115,630	-	8,932	8,932
Environmental protection	708,853	962	3,173	-	(704,718)	(704,718)
Economic and physical development	76,554	6,430	-	-	(70,124)	(70,124)
Cultural and recreation	250,806	7,100	-	35,000	(208,706)	(208,706)
Interest on long-term debt	113,917	-	-	-	(113,917)	(113,917)
Total governmental activities (See Note 1)	\$ 3,619,968	\$ 19,480	\$ 309,567	\$ 35,000	(3,255,921)	(3,255,921)
General revenues:						
Taxes:						
Property taxes, levied for general purpose					1,882,199	1,882,199
Grants and contributions not restricted to specific programs					1,347,609	1,347,609
Farmers Day					30,390	30,390
Unrestricted investment earnings					43,478	43,478
Sale of capital assets					121,949	121,949
Insurance recovery					8,691	8,691
FEMA reimbursement					6,533	6,533
Miscellaneous					170,240	170,240
Total general revenues and transfers					3,611,089	3,611,089
Change in net position					355,168	355,168
Net position, beginning					4,114,911	4,114,911
Net position, ending					\$ 4,470,079	\$ 4,470,079

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, 2019

Exhibit 3

	General Fund	Capital Reserve Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,230,398	\$ -	\$ 2,230,398
Restricted cash	431,222	9,384	440,606
Taxes receivable (net)	59,061	-	59,061
Prepaid items	25,649	-	25,649
Due from other governments	384,245	-	384,245
Debt reimbursement receivable from City of Salisbury	1,340,290	-	1,340,290
Total assets	4,470,865	9,384	4,480,249
Liabilities			
Accounts payable and accrued liabilities	109,890	-	109,890
Unearned revenue	33,185	-	33,185
Performance bonds	197,129	-	197,129
Total liabilities	340,204	-	340,204
Deferred Inflows of Resources			
Property taxes receivable	59,061	-	59,061
Prepaid taxes	90	-	90
Debt reimbursement from City of Salisbury	1,340,290	-	1,340,290
Total deferred inflows of resources	1,399,441	-	1,399,441
Fund Balances			
Non Spendable			
Prepaid expenses	25,649	-	25,649
Restricted			
Stabilization by State Statute	384,153	-	384,153
Streets	113,121	-	113,121
Police-Drug enforcement	21,582	-	21,582
Debt service	116,087	-	116,087
Capital Reserve	-	9,384	9,384
Assigned			
Subsequent year's expenditures	-	-	-
Unassigned	2,070,628	-	2,070,628
Total fund balances	2,731,220	9,384	\$ 2,740,604
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,470,865	\$ 9,384	

TOWN OF CHINA GROVE, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

Exhibit 3

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

Total Fund Balance, Governmental Funds		\$ 2,740,604
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Gross capital assets at historical cost	\$ 7,167,579	
Accumulated depreciation	<u>(2,780,596)</u>	4,386,983
Deferred outflows of resources related to contributions to the pension plan in the current fiscal year are not reported in the funds		467,706
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		15,670
Earned revenues considered deferred inflows of resources in fund statements		1,399,441
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		(4,478,984)
Deferred inflows of resources related to pensions are not reported in the funds		(18,352)
Other long-term liabilities (accrued interest), are not due and payable in the current period and therefore are not reported in the funds.		<u>(42,989)</u>
Net position of governmental activities		<u>\$ 4,470,079</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

Exhibit 4

	General Fund	Capital Reserve Fund	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 1,878,747	\$ -	\$ 1,878,747
Unrestricted intergovernmental	1,347,608	-	1,347,608
Restricted intergovernmental	560,590	-	560,590
Permits and fees	19,480	-	19,480
Investment earnings	43,282	196	43,478
Miscellaneous	65,241	-	65,241
Total Revenues	3,914,948	196	3,915,144
Expenditures			
Current			
General Government	486,837	-	486,837
Public safety	1,682,192	-	1,682,192
Transportation	93,364	-	93,364
Environmental protection	694,856	-	694,856
Economic and physical development	76,555	-	76,555
Cultural and recreation	433,276	-	433,276
Debt Service			
Principal retirement	320,013	-	320,013
Interest	116,236	-	116,236
Total expenditures	3,903,329	-	3,903,329
Excess (deficiency) of revenues over expenditures	11,619	196	11,815
Other financing sources (uses):			
Proceeds from borrowing	114,800	-	114,800
Sale of capital assets	121,949	-	121,949
Insurance recovery	8,691	-	8,691
Total other financing sources (uses)	245,440	-	245,440
Net change in fund balance	257,059	196	257,255
Fund balances, beginning	2,474,161	9,188	2,483,349
Fund balance, ending	\$ 2,731,220	\$ 9,384	\$ 2,740,604

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

Exhibit 4

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

Net changes in fund balances - total governmental funds	\$	257,255
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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	\$	354,235	
Depreciation expense for governmental assets		(350,379)	3,856

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities			110,621
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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.

Amount of donated assets		135,393	
Change in unavailable revenue for tax revenues		3,452	
Change in unearned revenue for debt reimbursement-City of Salisbury		(209,490)	(70,645)

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		(114,800)	
Principal payments on long-term debt		320,013	
Decrease in accrued interest payable	\$	2,319	207,532

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			5,192
Pension expense (LGERS)			(152,855)
Net pension obligation (LEOSSA)			(15,943)

Total changes in net position of governmental activities			\$ 355,168
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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, 2019

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
Revenues				
Ad valorem taxes	\$ 1,825,000	\$ 1,825,000	\$ 1,878,747	\$ 53,747
Unrestricted intergovernmental	1,297,800	1,297,800	1,347,608	49,808
Restricted intergovernmental	522,450	571,950	560,590	(11,360)
Permits and fees	13,050	13,050	19,480	6,430
Investment earnings	18,000	18,000	43,282	25,282
Miscellaneous	103,500	181,500	65,241	(116,259)
Total revenues	3,779,800	3,907,300	3,914,948	7,648
Expenditures				
Current				
General government	479,300	501,800	486,837	14,963
Public safety	1,762,400	1,762,400	1,682,192	80,208
Transportation	180,000	180,000	93,364	86,636
Environmental protection	705,800	705,800	694,856	10,944
Economic and physical development	81,500	91,500	76,555	14,945
Cultural and recreational	340,400	435,400	433,276	2,124
Debt service				
Principal retirement	331,100	331,100	320,013	11,087
Interest	117,300	117,300	116,236	1,064
Total expenditures	3,997,800	4,125,300	3,903,329	221,971
Revenues over (under) expenditures	(218,000)	(218,000)	11,619	229,619
Other financing sources (uses):				
Proceeds from borrowing	123,000	123,000	114,800	(8,200)
Sale of capital assets	-	-	121,949	121,949
Insurance recovery	-	-	8,691	8,691
Total other financing sources (uses)	123,000	123,000	245,440	122,440
Fund balance appropriated	95,000	95,000	-	(95,000)
Net change in fund balance	\$ -	\$ -	257,059	\$ 257,059
Fund balance, beginning			<u>2,474,161</u>	
Fund balance, ending			<u>\$ 2,731,220</u>	

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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, 2019

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, 2019

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 fair value. The NCCMT-Term Portfolio's bond fund has no rating and is measured at fair value. As of June 30, 2019, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

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, 2019

3. Restricted Assets

Cash in Police drug accounts 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-state	\$ 4,409
Police drug account-federal	17,172
Debt service account-USDA loan	116,087
Developer performance bond	197,179
Restricted for street maintenance	96,375
Capital Reserve Fund	9,384
Total restricted cash	\$ 440,606

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, 2019

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:

Asset Class	Estimated Useful Lives
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 2019 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, 2019

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 - North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

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.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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.

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, 2019

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, 2019, the Town's deposits had a carrying amount of \$1,899,754 and a bank balance of \$1,924,933. Of the bank balance, \$708,908 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2019, the Town's petty cash fund totaled \$450.

2. Investments

At June 30, 2019, the Town of China Grove had \$770,800 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, 2019 is net of an allowance for doubtful accounts of \$14,806.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2019, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 50,912	\$ 95,525	\$ -	\$ 146,437
Total capital assets not being depreciated	50,912	95,525	-	146,437
Capital assets being depreciated:				
Buildings	2,888,094	237,417	-	3,125,511
Equipment	3,530,680	156,686	566,404	3,120,962
Infrastructure	615,680	-	-	615,680
Other improvements	158,989	-	-	158,989
Total capital assets being depreciated	7,193,443	394,103	566,404	7,021,142
Less accumulated depreciation for:				
Buildings	632,533	59,340	-	691,873
Equipment	2,163,625	273,367	566,404	1,870,588
Infrastructure	91,036	12,314	-	103,350
Other improvements	109,427	5,358	-	114,785
Total accumulated depreciation	2,996,621	\$ 350,379	\$ 566,404	2,780,596
Total capital assets being depreciated, net	4,196,822			4,240,546
Governmental activity capital assets, net	\$ 4,247,734			\$ 4,386,983

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

General government	\$ 37,762
Public safety	231,079
Transportation	13,334
Environmental protection	53,995
Cultural and recreation	14,209
Total depreciation expense	\$ 350,379

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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, 2019, was 8.500% of compensation for law enforcement officers and 7.810% 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 \$110,621 for the year ended June 30, 2019.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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, 2019, the Town reported a liability of \$531,879 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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, 2018, the Town's proportion was 0.022%, which was an increase of 0.003% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$151,582. At June 30, 2019, the Town 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	\$ 82,056	\$ 2,753
Changes of assumptions	141,140	-
Net difference between projected and actual earnings on pension plan investments	73,011	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	23,837	1,903
Town contributions subsequent to the measurement date	110,621	-
Total	<u>\$ 430,665</u>	<u>\$ 4,656</u>

\$110,621 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, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 147,566
2020	99,893
2021	22,658
2022	45,271
2023	-
Thereafter	-

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

Actuarial Assumptions- The total pension liability in the December 31, 2017 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	7.00 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, 2017 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, 2018 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 2017 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
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2019

Discount rate. The discount rate used to measure the total pension liability was 7.00%. 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 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 1,277,620	\$ 531,879	\$ (91,273)

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 0.85 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, 2018 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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 For the Year Ended June 30, 2019

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, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 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, 2019, the Town reported a total pension liability of \$220,208. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$26,886.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,365	\$ -
Changes of assumptions	11,521	13,606
Benefit payments and administrative expenses subsequent to the measurement date	10,155	-
Total	\$ 37,041	\$ 13,606

TOWN OF CHINA GROVE, NORTH CAROLINA
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\$10,155 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources. Other amounts reported as deferred inflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$	2,672
2021		2,672
2022		2,672
2023		2,672
2024		2,900
Thereafter		(308)

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 (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total pension liability	\$ 246,620	\$ 220,208	\$ 196,476

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

	2019
Beginning balance	\$ 220,256
Service cost	16,786
Interest on the total pension liability	6,639
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	9,169
Changes of assumptions or other inputs	(12,333)
Benefit payments	(20,309)
Other changes	-
Ending balance of the total pension liability	<u>\$ 220,208</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
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For the Year Ended June 30, 2019

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, 2017 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	\$151,582	\$26,886	\$178,468
Pension Liability	531,879	220,208	752,087
Proportionate share of the net pension liability	0.022%	n/a	
Deferred of Outflows of Resources			
Difference between expected and actual experience	82,056	15,365	97,421
Changes of assumptions	141,140	11,521	152,661
Net difference between projected and actual earnings on plan investments	73,011	-	73,011
Changes in proportion and differences between contributions and proportionate share of contributions	23,837	-	23,837
Benefit payments and administrative costs paid subsequent to the measurement date	110,621	10,155	120,776
Deferred Inflows of Resources			
Differences between expected and actual experience	2,753	-	2,753
Changes in assumptions	-	13,606	13,606
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	1,903	-	1,903

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 \$65,788 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, 2019

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	\$ 97,421
Changes of assumptions	152,661
Net difference between projected and actual earnings on pension plan investments	73,011
Changes in proportion and differences between Town contributions and proportionate share of contributions	23,837
Town contributions subsequent to the measurement date	110,621
Benefit payments and administrative expenses subsequent to the measurement date-LEOSSA	10,155
	\$ 467,706

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

	Statement of Net Position (Exhibit 1)	General Fund Balance Sheet (Exhibit 3)
Prepaid taxes	\$ 90	\$ 90
Property taxes receivable	-	59,061
Debt reimbursement from City of Salisbury	-	1,340,290
Differences between expected and actual experience	2,753	-
Changes of assumptions	13,606	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,903	-
	\$ 18,352	\$ 1,399,441

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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	\$ 93,364
Sales tax refund requested	2,020
Accounting error on prior year sales tax refund	<u>(100)</u>
Per Powell Bill Expenditures Report	<u><u>\$ 95,284</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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, 2019:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 26,374	\$ 18,462	\$ 7,912
Total	<u>\$ 26,374</u>	<u>\$ 18,462</u>	<u>\$ 7,912</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2019 are as follows:

Year Ending June 30	
2020	\$ 5,275
2021	<u>2,637</u>
Total minimum lease payments	7,912
Less amount representing interest	<u>-</u>
Present value of the minimum lease payments	<u>\$ 7,912</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2019

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, 2019 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2020	\$ 51,015	\$ 65,072
2021	52,800	63,287
2022	54,648	61,439
2023	56,561	59,526
2024	58,541	57,546
2025-2029	324,909	255,526
2030-2034	385,890	194,545
2035-2039	458,316	122,119
2040-2043	416,527	36,495
	<u>\$ 1,859,207</u>	<u>\$ 915,555</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, 2019 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2020	\$ 83,907	\$ 8,626
2021	83,907	6,469
2022	83,907	4,313
2023	83,906	2,156
	<u>\$ 335,627</u>	<u>\$ 21,564</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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, 2019 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2020	\$ 125,583	\$ 23,157
2021	125,583	20,263
2022	125,583	17,368
2023	125,583	14,473
2024	125,583	11,579
2025-2027	376,747	17,369
	<u>\$ 1,004,662</u>	<u>\$ 104,209</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, 2019 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2020	\$ 57,890	\$ 8,666
2021	59,881	6,675
2022	61,941	4,615
2023	64,072	2,484
2024	32,860	420
	<u>\$ 276,644</u>	<u>\$ 22,860</u>

f. Installment Purchase

The Town borrowed \$114,000 from a local financial institution to purchase vehicles during the year ended June 30, 2019. The agreement calls for quarterly interest payments beginning March 2019 and annual principal payments beginning December 2019. The loan has an interest rate of 3.66%.

The future minimum payments of the installment purchase as of June 30, 2019 are as follows:

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

Year Ending June 30	Governmental Activities	
	Principal	Interest
2020	\$ 38,267	\$ 3,498
2021	38,267	2,097
2023	38,266	696
	<u>\$ 114,800</u>	<u>\$ 6,291</u>

At June 30, 2019 the Town of China Grove, North Carolina had a legal debt margin of \$22,290,465.

g. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 3,790,880	\$ 114,800	\$ 314,739	\$ 3,590,941	\$ 356,661
Capitalized leases	13,187	-	5,275	7,912	5,275
Compensated absences	133,236	-	5,192	128,044	-
Net pension benefit (LGERS)	293,781	238,098	-	531,879	-
Net pension obligation (LEO)	220,256	-	48	220,208	10,155
Governmental activities long-term liabilities	<u>\$ 4,451,340</u>	<u>\$ 352,898</u>	<u>\$ 325,254</u>	<u>\$ 4,478,984</u>	<u>\$ 372,091</u>

C. Net Investment in Capital Assets

Capital assets	\$ 4,386,983
Less:	
Capital leases	7,912
Town Hall/Fire Dept USDA loans	1,859,217
Loan to purchase fire truck	276,644
Loan to purchase vehicles	<u>114,800</u>
Net investment in capital assets	<u>\$ 2,128,410</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2019

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	\$ 2,731,220
Less:	
Prepaid items	25,649
Stabilization by State Statute	384,153
Streets (Powell Bill funds)	113,121
Police-Drug enforcement	21,582
Debt service	116,087
Appropriated Fund Balance in 2019-20 budget	-
Working Capital/Fund Balance Policy	-
	-
Remaining Fund Balance	<u>\$ 2,070,628</u>

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, 2019, 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, 2019. 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 14, 2019, 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 Six Fiscal Years

Local Government Employees' Retirement System

	<u>2019</u>	<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) (%)	0.02242%	0.01923%	0.01656%	0.01438%	0.01569%	0.01600%
China Grove's proportion of the net pension liability (asset) (\$)	\$ 531,879	\$ 293,781	\$ 351,459	\$ 64,537	\$ (92,531)	\$ 192,861
China Grove's covered-employee payroll	\$ 1,227,513	\$ 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	43.33%	27.51%	38.31%	7.89%	(11.48%)	24.38%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	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 Six Fiscal Years

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 110,621	\$ 96,875	\$ 81,746	\$ 63,663	\$ 59,213	\$ 57,818
Contributions in relation to the contractually required contribution	<u>110,621</u>	<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>	<u>\$ -</u>
China Grove's covered-employee payroll	\$ 1,382,678	\$ 1,227,513	\$ 1,067,802	\$ 917,486	\$ 817,698	\$ 805,672
Contributions as a percentage of covered-employee payroll	8.00%	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, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 220,256	\$ 193,959	\$ 200,663
Service Cost	16,786	12,573	12,251
Interest on the total pension liability	6,639	7,095	6,801
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	9,169	10,685	-
Changes of assumptions or other inputs	(12,333)	16,253	(5,447)
Benefit payments	(20,309)	(20,309)	(20,309)
Other changes	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Ending balance of the total pension liability	<u>\$ 220,208</u>	<u>\$ 220,256</u>	<u>\$ 193,959</u>

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, 2019

	2019	2018	2017
Total pension liability	\$ 220,208	\$ 220,256	\$ 193,959
Covered payroll	603,872	545,544	502,400
Total pension liability as a percentage of covered payroll	36.47%	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, 2018 Measurement Date: The Municipal Bond Index Rate increased from 3.16% to 3.64%

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, 2019

	Budget	Actual	Variance Positive (Negative)
Revenues			
Ad valorem taxes			
Taxes	\$ 1,813,000	\$ 1,862,077	\$ 49,077
Penalties and interest	12,000	16,670	4,670
Total	<u>1,825,000</u>	<u>1,878,747</u>	<u>53,747</u>
Unrestricted intergovernmental			
Local option sales taxes	970,000	1,006,092	36,092
Telecommunications sales tax	36,600	34,322	(2,278)
Utility sales tax	227,000	243,416	16,416
Piped natural gas sales tax	10,200	11,130	930
Video franchise fee	22,000	20,759	(1,241)
Beer and wine tax	20,000	18,454	(1,546)
ABC profit distribution	12,000	13,435	1,435
Total	<u>1,297,800</u>	<u>1,347,608</u>	<u>49,808</u>
Restricted intergovernmental			
Powell Bill allocation	120,000	115,630	(4,370)
Fire tax	5,400	4,797	(603)
Fire tax supplement	7,750	7,740	(10)
Salisbury/Rowan Schools-SRO	123,000	123,279	279
Debt reimbursement from City of Salisbury	246,400	246,324	(76)
Public safety grants	25,000	-	(25,000)
Solid waste disposal	2,900	3,173	273
Federal seizure distribution	-	17,153	17,153
NC legislative grant	35,000	35,000	-
FEMA reimbursement	6,500	6,533	33
Controlled substance tax	-	961	961
Total	<u>571,950</u>	<u>560,590</u>	<u>(11,360)</u>
Permits and fees			
Police fines and citations	3,500	4,988	1,488
Zoning and development fees	8,500	5,765	(2,735)
Code enforcement revenue	-	665	665
Community building rent	-	7,100	7,100
Storm water review fees	1,050	962	(88)
Total	<u>13,050</u>	<u>19,480</u>	<u>6,430</u>
Investment earnings	<u>18,000</u>	<u>43,282</u>	<u>25,282</u>
Miscellaneous			
Farmers Day revenue	31,200	30,390	(810)
Sale of materials and fixed assets	128,000	6,080	(121,920)
Parade entry fees	6,000	7,383	1,383
CIG sponsors/donations	8,000	11,182	3,182
Miscellaneous revenue	8,300	10,206	1,906
Total	<u>181,500</u>	<u>65,241</u>	<u>(116,259)</u>
Total revenues	<u>\$ 3,907,300</u>	<u>\$ 3,914,948</u>	<u>\$ 7,648</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, 2019

	Budget	Actual	Variance Positive (Negative)
Expenditures			
General government			
Governing body			
Salaries and wages	\$ 8,200	\$ 8,160	\$ 40
Payroll tax	600	625	(25)
Materials and supplies	2,700	1,195	1,505
Travel and schools	500	701	(201)
Advertising	1,000	150	850
Membership and dues	7,000	6,983	17
Miscellaneous	1,000	792	208
Community appearance	-	100	(100)
Grant match bus service	7,500	7,500	-
Donations	6,500	5,800	700
	<u>35,000</u>	<u>32,006</u>	<u>2,994</u>
Administration			
Salaries and wages	247,000	231,340	15,660
Salaries and wages-overtime	4,000	3,684	316
Payroll tax	18,000	18,859	(859)
Employee benefits	43,400	46,129	(2,729)
Workers compensation	700	1,132	(432)
Professional fees-accounting	17,000	17,100	(100)
Professional fees-legal	6,000	7,489	(1,489)
Office supplies	2,000	2,723	(723)
Materials and supplies	500	778	(278)
Contracted services	4,500	5,564	(1,064)
Technical support	20,500	25,335	(4,835)
Travel and schools	7,000	6,699	301
Telephone and postage	4,800	5,242	(442)
Utilities	8,600	8,243	357
Printing and codification	4,000	2,200	1,800
Repair and maintenance	-	113	(113)
Repair and maintenance-building	1,500	388	1,112
Advertising	-	122	(122)
Bank service fees	100	205	(105)
Memberships and dues	900	465	435
Miscellaneous	3,600	2,832	768
Leases and maintenance	200	160	40
Insurance	18,500	18,692	(192)
Rowan County tax services	24,000	29,767	(5,767)
Capital outlay	30,000	19,570	10,430
	<u>466,800</u>	<u>454,831</u>	<u>11,969</u>
 Total general government	 <u>\$ 501,800</u>	 <u>\$ 486,837</u>	 <u>\$ 14,963</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, 2019

	Budget	Actual	Variance Positive (Negative)
Public safety			
Police department			
Salaries and wages	\$ 575,300	\$ 584,546	\$ (9,246)
School resource officers	98,900	92,239	6,661
Salaries and wages-overtime	6,000	4,339	1,661
Payroll tax	53,000	50,150	2,850
Employee benefits	183,900	175,031	8,869
Workers compensation	17,600	19,704	(2,104)
Materials and supplies	8,000	5,739	2,261
Fuel and oil	24,000	23,979	21
Uniforms	8,000	7,400	600
Weapons	4,000	2,044	1,956
Contract services	13,000	11,980	1,020
Technical support	8,000	6,353	1,647
Travel and schools	5,000	11,233	(6,233)
Telephone and postage	1,600	2,248	(648)
Cell phones and pagers	12,000	13,584	(1,584)
Utilities	7,400	6,925	475
Repairs and maintenance	20,000	18,389	1,611
Repairs and maintenance-building	7,000	11,523	(4,523)
Memberships and dues	600	429	171
Miscellaneous	3,000	1,808	1,192
Insurance	21,500	18,527	2,973
Special investigations	-	500	(500)
Capital outlay	83,000	80,228	2,772
Total police department	\$ 1,160,800	\$ 1,148,898	\$ 11,902

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, 2019

	Budget	Actual	Variance Positive (Negative)
Fire department			
Salaries and wages-regular	\$ 229,000	\$ 223,896	\$ 5,104
Salaries and wages-overtime	6,000	7,844	(1,844)
Salaries and wages-part time	30,000	32,905	(2,905)
Salaries and wages-per call	1,000	1,586	(586)
Payroll tax	33,700	19,486	14,214
Employee benefits	68,900	72,149	(3,249)
Workers compensation	8,200	9,335	(1,135)
Food and provisions	800	1,298	(498)
Medical supplies	2,500	2,899	(399)
Material and supplies	12,000	13,754	(1,754)
Fuel and oil	10,000	10,022	(22)
Uniforms	4,000	2,038	1,962
Turn out gear	20,000	15,220	4,780
Contracted services	37,800	40,273	(2,473)
Travel and schools	4,000	1,414	2,586
Telephone and postage	1,600	1,707	(107)
Cell phones and pagers	2,600	3,890	(1,290)
Utilities	8,600	8,309	291
Repairs and maintenance	40,000	32,733	7,267
Repairs and maintenance-buildings	10,000	1,139	8,861
Memberships and dues	300	-	300
Miscellaneous	2,000	1,167	833
Insurance	18,600	16,926	1,674
Capital outlay	50,000	13,304	36,696
	<u>601,600</u>	<u>533,294</u>	<u>68,306</u>
Total fire department			
	<u>601,600</u>	<u>533,294</u>	<u>68,306</u>
Total public safety	<u>1,762,400</u>	<u>1,682,192</u>	<u>80,208</u>
Transportation			
Streets and highways			
Repairs and maintenance	25,000	9,648	15,352
Paving	155,000	83,716	71,284
	<u>180,000</u>	<u>93,364</u>	<u>86,636</u>
Total transportation	<u>\$ 180,000</u>	<u>\$ 93,364</u>	<u>\$ 86,636</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, 2019

	Budget	Actual	Variance Positive (Negative)
Environmental protection			
Public works			
Employee wages-regular	\$ 222,000	\$ 220,950	\$ 1,050
Employee wages-overtime	10,000	9,413	587
Payroll taxes	17,300	17,331	(31)
Employee benefits	61,000	64,761	(3,761)
Workers compensation	9,000	11,168	(2,168)
Professional fees	-	3,704	(3,704)
Materials and supplies	7,000	11,411	(4,411)
Fuel and oil	11,500	14,257	(2,757)
Uniforms	2,000	1,452	548
Safety equipment and materials	500	515	(15)
Contracted services	1,500	1,219	281
Travel and schools	200	53	147
Telephone and postage	1,500	1,719	(219)
Cell phones and pagers	3,800	4,052	(252)
Utilities	5,400	5,538	(138)
Street lights	50,000	39,285	10,715
Repairs and maintenance	22,000	19,474	2,526
Repairs and maintenance-buildings	5,000	-	5,000
Memberships and dues	200	220	(20)
Miscellaneous	300	263	37
Equipment rental	1,000	318	682
Insurance	11,000	11,657	(657)
Garbage and recycling contract	190,000	180,718	9,282
Landfill charges	28,000	24,300	3,700
Stormwater expenses	1,600	1,882	(282)
Downtown appearance	4,000	1,239	2,761
Capital outlay	40,000	47,957	(7,957)
Total environmental protection	<u>705,800</u>	<u>694,856</u>	<u>10,944</u>
Economic and physical development			
Planning			
Salaries and wages-part time	24,000	24,492	(492)
Payroll tax	1,800	1,877	(77)
Workers compensation insurance	1,000	(94)	1,094
Professional fees	20,000	13,260	6,740
Materials and supplies	7,500	836	6,664
Fuel	2,000	516	1,484
Contracted services	13,000	15,400	(2,400)
Technology	7,200	4,430	2,770
Travel and schools	1,500	748	752
Telephone and postage	1,500	1,143	357
Repairs and maintenance	1,500	948	552
Advertising	2,000	1,728	272
Memberships and dues	2,000	200	1,800
Miscellaneous	200	130	70
Tourism and economic development	6,300	6,308	(8)
Insurance	-	4,633	(4,633)
Total economic and physical development	<u>\$ 91,500</u>	<u>\$ 76,555</u>	<u>\$ 14,945</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, 2019

	Budget	Actual	Variance Positive (Negative)
Cultural and recreation			
Recreation			
Salaries & wages-regular	\$ 52,100	\$ 50,455	\$ 1,645
Salaries & wages-overtime	3,000	3,447	(447)
Payroll tax	4,000	4,071	(71)
Employee benefits	13,300	13,997	(697)
Materials and supplies	-	172	(172)
Fuel and oil	100	56	44
Contracted services	42,200	39,475	2,725
Christmas activities	8,600	5,975	2,625
Christmas in the Grove	10,200	4,292	5,908
Community building expenses	121,000	15,177	105,823
Parade expenses	4,800	5,562	(762)
Events misc expense	11,300	11,097	203
Travel	3,000	3,260	(260)
Telephone and postage	800	639	161
Utilities	8,000	7,651	349
Repair and maintenance	500	188	312
Advertising	4,000	2,996	1,004
Membership and dues	300	480	(180)
Miscellaneous	400	229	171
Insurance	6,000	5,865	135
Playground expense	30,000	26,393	3,607
Little League	6,000	7,117	(1,117)
Capital outlay	75,000	197,549	(122,549)
Total recreation	<u>404,600</u>	<u>406,143</u>	<u>(1,543)</u>
Farmers Day			
Materials and supplies	2,000	1,356	644
Travel	250	264	(14)
Farmers Day advertising	1,100	1,021	79
Miscellaneous	2,650	2,099	551
Entertainment	9,000	6,975	2,025
Sount equipment & stage	4,000	4,000	-
Fireworks	3,500	3,500	-
T-shirts	3,800	3,105	695
Rentals	3,500	3,801	(301)
Rowan Septic	1,000	1,012	(12)
Total Farmers Day	<u>30,800</u>	<u>27,133</u>	<u>3,667</u>
Total cultural and recreation	<u>\$ 435,400</u>	<u>\$ 433,276</u>	<u>\$ 2,124</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, 2019

	Budget	Actual	Variance Positive (Negative)
Debt service			
Principal retirement	\$ 331,100	\$ 320,013	\$ 11,087
Interest	117,300	116,236	1,064
Total debt service	448,400	436,249	12,151
Total expenditures	4,125,300	3,903,329	221,971
Revenues over (under) expenditures	\$ (218,000)	\$ 11,619	\$ 229,619
Other financing sources (uses)			
Proceeds from borrowing	\$ 123,000	\$ 114,800	\$ (8,200)
Sale of capital assets	-	121,949	121,949
Insurance proceeds	-	8,691	8,691
Total other financing sources (uses)	123,000	245,440	122,440
Fund balance appropriated	95,000	-	(95,000)
Net change in fund balance	\$ -	257,059	\$ 257,059
Fund balances			
Fund balance, beginning		2,474,161	
Fund balance, ending		\$ 2,731,220	

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, 2019

	Budget	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues					
Interest	\$ 15,000	\$ 18,588	\$ 196	\$ 18,784	\$ 3,784
Total revenues	15,000	18,588	196	18,784	3,784
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	\$ -	\$ 9,188	\$ 196	\$ 9,384	\$ 9,384

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2019

Fiscal Year	Uncollected Balance June 30, 2018	Additions	Collections and Credits	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 1,879,380	\$ 1,852,796	\$ 26,584
2017-2018	31,782	-	16,343	15,439
2016-2017	9,998	-	2,212	7,786
2015-2016	7,136	-	1,555	5,581
2014-2015	5,048	-	967	4,081
2013-2014	4,606	-	695	3,911
2012-2013	3,719	-	176	3,543
2011-2012	3,580	-	261	3,319
2010-2011	1,975	-	12	1,963
2009-2010	1,718	-	59	1,659
2008-2009	1,645	-	1,645	-
	<u>\$ 71,207</u>	<u>\$ 1,879,380</u>	<u>\$ 1,876,721</u>	73,866
Less allowance for uncollectible accounts:				
General Fund				<u>14,806</u>
Ad valorem taxes receivable-net				<u>59,060</u>
Reconcilement with revenues:				
Ad valorem taxes - General Fund				1,878,747
Reconciling items				
Interest and fees collected				(16,670)
Discounts allowed				12,269
Taxes written off				<u>2,375</u>
Total collections and credits				<u>\$ 1,876,721</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Year Ended June 30, 2019

	Town-wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$323,825,274	\$.58	\$1,879,739	\$ 1,699,513	\$ 180,226
Penalties	-		852	852	-
Total	<u>323,825,274</u>		<u>1,880,591</u>	<u>1,700,365</u>	<u>180,226</u>
Abatements	<u>(208,793)</u>		<u>(1,211)</u>	<u>(799)</u>	<u>(412)</u>
Total property valuation	<u>\$323,616,481</u>				
Net levy			1,879,380	1,699,566	179,814
Uncollected taxes at June 30, 2019			<u>(26,584)</u>	<u>(26,235)</u>	<u>(349)</u>
Current year's taxes collected			<u>\$1,852,796</u>	<u>\$ 1,673,331</u>	<u>\$ 179,465</u>
Current levy collection percentage			<u>98.59%</u>	<u>98.46%</u>	<u>99.81%</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, 2019, 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 14, 2019.

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 14, 2019