Comprehensive Annual Financial Report
Year Ended
June 30, 2012

Town of Kernersville,
North Carolina

Dawn H. Morgan, Mayor

Dana C. Jones, Mayor Pro-Tem
Keith Hooker
Irving Neal
Tracey H. Shifflette
Neal Stockton

Curtis L. Swisher
Town Manager

Franz Ader, PE
Finance Director

Cynthia Stevens
Accounting Operations Manager

"Prepared by the Finance Department"

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Town of Kernersville, North Carolina

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INTRODUCTORY SECTION

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Town of Kernersville, North Carolina

LIST OF PRINCIPAL OFFICIALS

Board of Aldermen

Dawn H. Morgan, Mayor

Dana C. Jones, Mayor Pro-Tem

Keith Hooker

Irving Neal

Tracey H. Shifflette

Neal Stockton

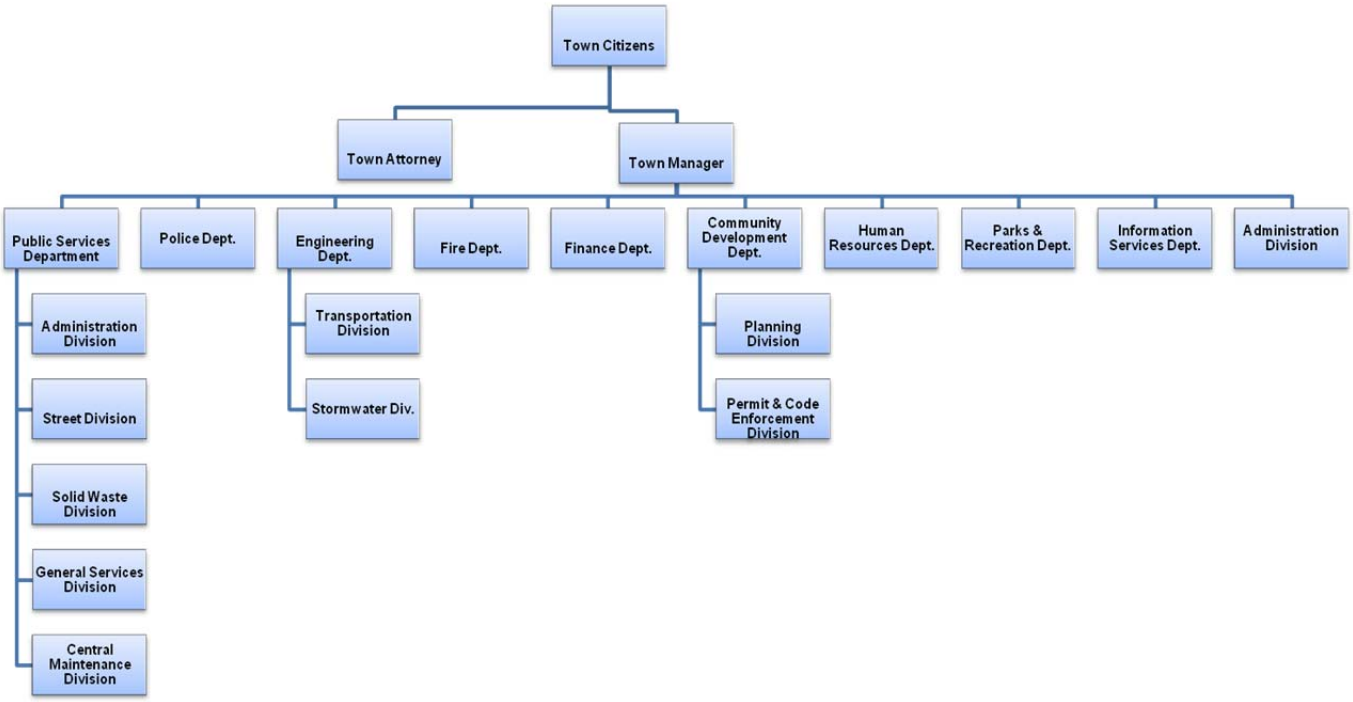
Town Manager

Curtis L. Swisher

Finance Director

Franz Ader, PE

ORGANIZATIONAL CHART



TOWN OF KERNERSVILLE

Dawn H. Morgan, Mayor
Curtis L. Swisher, Town Manager

P.O. Box 728
Kernersville, NC 27285-0728

134 East Mountain Street
Telephone (336) 996-3121
Fax (336) 996-4822

Letter of Transmittal
Honorable Mayor
Members of the Board of Aldermen
Town of Kernersville, North Carolina

Town Profile

The Town of Kernersville, incorporated in 1871 and uniquely centered between the cities of Greensboro, High Point and Winston-Salem, continues to grow and prosper. According to North Carolina state demographics, Kernersville's population has grown 35% between the 2000 U.S. Census and 2010, putting it the 52nd fastest growing municipality in the state. The Town of Kernersville currently occupies a land area of 23.039 square miles and serves an estimated 2011 population of 23,782.

The Town is empowered by the state of North Carolina to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing body. The Town of Kernersville has operated under the council-manager form of government since 1965. Policy-making and legislative authority are vested in a Board of Aldermen (Board) consisting of the mayor and five other members. The Board is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring both the Town's manager and attorney. The Town Manager is responsible for carrying out the policies and ordinances of the Board, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The Board is elected on a non-partisan basis and members, including the Mayor, serve two-year terms. The Town of Kernersville provides a range of services, including: police and fire protection, street maintenance/construction, fire and building inspections, community development, garbage collection and recreational activities.

Local Economy and Long-Term Financial Planning

The local economy continues to experience growth during this fiscal year, which has allowed Kernersville to increase its tax base. Planning for the needs of the community and enhancing the quality of life in Kernersville are two of the Town's top goals. Kernersville continues to develop and benefit from the considerable efforts of the Town's departments and long-range planning. Although growth in Kernersville has slowed as it has in other parts of the state, it is still one of the most desirable areas in the Piedmont Triad Metropolitan Region for industrial, commercial, and residential construction and relocation.

Some of the most significant Town projects started or completed during the fiscal year 2011-12 include the following:

1. The School Street sidewalk project began in the spring of 2012 and was completed by June of 2012. The project consisted of minor road widening and drainage installation to facilitate the construction of a sidewalk along School Street to connect the existing sidewalk on Nelson Street to the existing sidewalk on the Kernersville Elementary School property. This project was primarily funded by federal "Safe Routes to School" funds.

ALDERMEN
Keith Hooker - Dana Caudill Jones - Irving Neal - Tracey H. Shifflette - Neal Stockton

NORTH CAROLINA'S
PIEDMONT
TRIAD

2. The Union Cross Road project began in May of 2012. It provides roadway improvements by widening Union Cross Road to accommodate a new southbound left-turn lane at the intersection of Glenwood Road and a matching northbound left-turn lane into Laverne Lane. The project was primarily funded by the Surface Transportation Program/Direct Attributable (STP-DA) and with a match from the Town. Completion is estimated to occur in the fall of 2012.

3. The Angel Road project also began in May of 2012. This project will widen the existing Angel Road from small gravel road to a wider curb and gutter facility built to industrial street standards. Construction is expected to be complete by the end of 2012.

Future Town projects in the planning or slated for construction during the fiscal year 2012-13 include the following:

1. The Piney Grove Road project consists of roadway widening to accommodate an additional southbound through-lane at a location north of the intersection with Nelson Street and south to the intersection with North Main Street. The improvements at the North Main/Piney Grove Road intersection were identified as needed when the Kernersville Middle School was constructed. In conjunction with project, STP-DA funding has been obtained for the installation of sidewalk along Piney Grove Road and Nelson Street, as well as 80% of the road work. Work is expected to begin in the spring of 2013.

2. The Kerner Mill Creek Greenway Park is a greenway from Oakhurst Drive to Hopkins Road along the Kerner Mill Creek. A feasibility study was completed in 2010 and final design began in the spring of 2012. Construction funding has been obtained for the first phase of the project from Oakhurst Drive to the Kilburn subdivision with STPDA funds. Construction is expected to begin in the spring of 2013.

3. The North Cherry Street Sidewalk project would extend sidewalk proposed on the Piney Grove Road project from the intersection of North Cherry and Piney Grove west over the railroad tracks to connect to existing sidewalk on the other side of the railroad tracks and lead into downtown. Partial funding from the North Carolina Department of Transportation (NCDOT) has been obtained using enhancement funds. Construction is anticipated to begin during the summer of 2013.

Projects like this have a positive impact on the Town's economy which will further provide increased revenues to fund the necessary services needed to keep the Town vibrant and flourishing. New businesses will continue to locate in Kernersville due to its strategic central location in the Piedmont Triad Metropolitan Region, quality of life and financial stability. The Town will continue to enjoy growth in the residential and business arena with such major business facilities as FedEx Ground's new regional hub in Kernersville that was completed in August 2011; and the HondaJet Corporate Headquarters and the FedEx Air shipping center, both located at the Piedmont Triad International Airport.

The Town, although affected by the downturn in the economy, has been greatly blessed with opportunities not afforded other communities:

- Construction was completed in December of 2010 on a new $84 million, 30-acre Kernersville Hospital containing 50 beds. The hospital is a part of the 191-acre Medical Business Park approved by the Town in December of 2007. Additional construction in the park is anticipated in 2012.

- In 2010, the United States Veterans Administration selected two sites in Kernersville as potential sites for a 320,000 square foot Veterans Administration Health Clinic. A 40-acre site was selected across from the Kernersville Hospital. The Veterans Administration is in the process of selecting a private company to build and lease to the Veterans Administration the Health Clinic with a projected investment cost of over $100,000,000, and an employment base of over 500 workers.

- Construction continues on the infrastructure for the 338-acre Triad Business Park approved by the Town in October of 2007. A major anchor in the park is the new $80 million dollar Fed-Ex Ground facility, a 125-acre regional hub distribution facility that began operating in August of 2011.

- The 400-acre mixed-use development "Carrollton" project consists of a 150-acre village center, 75-acre Business Park and 175 acres of residential. The first phase of Carrollton was completed in 2005 with the $11,000,000 apartment complex, "The Meadows at Carrollton". The Town completed the last phase of the sewer outfall in the summer of 2011 to serve the business park and commercial retail area of the project. The entire Carrollton project is anticipated to be completed by 2020.

Kernersville is expecting around $500 million of new industrial, commercial, and residential development as a result of these new opportunities over the next ten years. Kernersville continues to be a key component of the Piedmont Triad Metropolitan Region's growth.

Community Participation

Partnering with Town officials, local citizen groups are adding to the success of Kernersville also. While the Town has many organizations that are standard to most communities, it has several unique associations that many cities and towns do not have. These organizations add value to the community in a way that further increases the Town's appeal to prospective businesses and residents. In addition to numerous civic, craft, recreational and newcomer organizations, the Town has: Kernersville Cares for Kids, Kernersville Little Theatre, Shepherd's Center of Kernersville (for seniors), Kernersville Community Appearance, Körner's Folly Foundation (historic in nature), Paul J. Ciener Botanical Garden, Chamber of Commerce and the Kernersville Council. These organizations add "flavor" and support to Kernersville benefiting both the citizens and the local economy. All of these efforts, and others, enable me to provide an annual financial report that reflects a stable local economy and a financially sound government for the fiscal year ended June 30, 2012.

The Report

The Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2012 reflects the fiscal policies our elected officials have established to achieve their annual priorities for program services and capital improvements. The Town's continued economic growth coupled with realistic long-term planning, management of resources and conservative use of debt are all a part of a proven formula to ensure positive operating results.

This CAFR consists of management's representations concerning the finances of the Town of Kernersville for the fiscal year ended June 30, 2012. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented herein. Management of the Town of Kernersville has established a comprehensive internal control framework that is designed to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

North Carolina general statutes require each unit of local government to publish, within four months after the close of the fiscal year, a complete set of financial statements presented in conformity with GAAP and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to this requirement, the Town engaged Dixon Hughes Goodman LLP, independent auditors, to perform an audit of the Town's reported financial position and results of operations contained in the government-wide, fund financial statements and notes to the financial statements. Working with the Town's financial staff, they reviewed and made appropriate tests of data included in the financial statement

and evaluated the overall financial statement representation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified (clean) opinion that the financial statements of the Town of Kernersville for the fiscal year ended June 30, 2012 are fairly presented in conformity with generally accepted accounting principles. The report of independent auditors is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Kernersville is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the Town's internal controls and compliance with legal requirements, with emphasis on administration of federal grants.

The system of internal accounting controls is designed to provide reasonable assurance that assets are safeguarded; that transactions are executed in accordance with state statutes, GAAP, and authorization of the Board; and that financial records are a reliable basis for preparation of annual financial statements. The system includes selection and training of qualified personnel, an organizational structure that provides appropriate delegation of authority and separation of responsibilities, an understanding of financial policies and procedures, and an internal audit program.

Assuring legal compliance with state statutes requires an accounting system that contains a variety of distinctly different fiscal and accounting entities. The annual budget serves as the foundation for the Town's financial planning and control. The Board is required to legally enact a final budget, by way of a Budget Ordinance or Project Ordinance, before the close of the fiscal year. The Budget Ordinance and Project Ordinances are prepared by fund and department and are formally amended by the Board, when required. The Town Manager is authorized to transfer budget amounts between line items within a department, but changes between departments and/or funds require approval of the Board.

Conservative budgeting is management's key strategy to maintaining financial stability and it is an integral part of the Town's financial policy. The healthy fund balance of the Town's chief fund, the General Fund, attests to that.

New Pronouncements

The Governmental Accounting Standards Board (GASB) is an independent organization that establishes accounting standards for state and local governments to improve accounting conformity and excellence with public-sector financial reporting. GASB occasionally issues statements to address accounting and financial reporting concerns. This report section summarizes notable statements which the Town has addressed or is in the process of addressing, as appropriate.

GASB Statement No. 62 entitled *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* The objective of this statement is to incorporate GASB's authoritative accounting and financial reporting guidance that was included in previous GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

GASB Statement No. 63 entitled *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*." The purpose of this statement is to define outflows of resources and deferred inflows of resources. The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada has awarded the highest form of recognition of governmental accounting and financial reporting, the Certificate of Achievement for Excellence in Financial Reporting, to the Town of Kernersville for each Annual Financial Report (Comprehensive) since 1997. We believe that this 2012 CAFR conforms to the highest reporting standards as well.

Deserving special commendation for the success of the Town's operations are skilled, talented and dedicated employees - the work force of the Town of Kernersville. Acknowledgement and appreciation are expressed for their contributions to another successful year. I also express my appreciation to the Mayor, Board of Aldermen and Town Manager for leadership, guidance, and establishment of policies for managing financial operations in a sound and progressive manner.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town of Kernersville's MD&A can be found immediately following the report of the independent auditors.

Respectfully submitted,

Franz Ader, PE, MPA
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Kernersville
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

FINANCIAL SECTION

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members
of the Town Board of Aldermen
Town of Kernersville
Kernersville, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kernersville, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Kernersville's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kernersville as of June 30, 2012, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012 on our consideration of the Town of Kernersville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance-Schedule of Funding Progress and Schedule of Required Employer Contributions, and Other Postemployment Benefits-Schedule of Funding Progress and Schedule of Employer Contributions on pages 3 through 17 and 62 through 65, respectively, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Kernersville, North Carolina. The introductory section, combining and individual nonmajor fund financial statements and schedules, and other supplementary information and the statistical tables, as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary schedules, other schedules and the Schedule of Expenditures of Federal and State Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules, other supplementary information and Schedule of Expenditures of Federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Dixon Hughes Goodman LLP

November 30, 2012

As management of the Town of Kernersville, we offer readers of the Town of Kernersville's financial statements this narrative overview and analysis of the financial activities of the Town of Kernersville for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

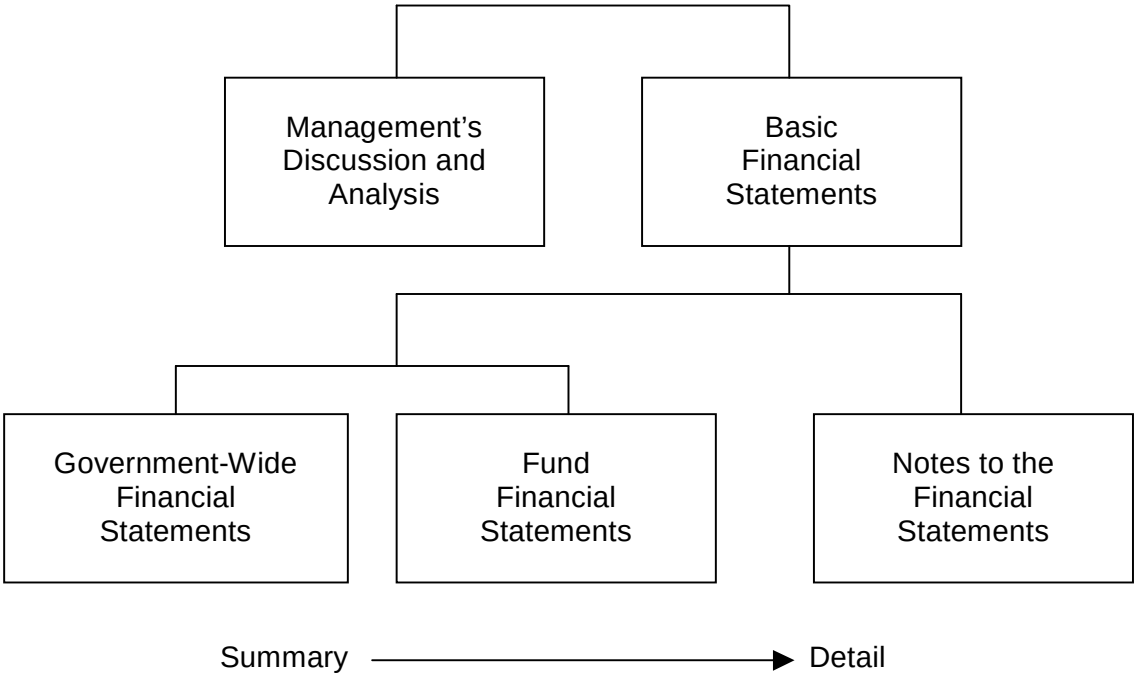
- The assets of the Town of Kernersville exceeded its liabilities at the close of the fiscal year by $124,313,235.
- The government's total net assets decreased by $3,681,708 in the current fiscal year.
- As of the close of the current fiscal year, the Town of Kernersville's governmental funds reported combined ending fund balances of $11,036,886. Approximately 50.9% of this total amount or $5,619,305 is available for spending at the government's discretion (unassigned).
- Approximately 12.9% of the total combined fund balance or $1,423,902 is committed to transportation or capital projects. Approximately 7.6% of the total combined fund balance or $838,883 is assigned to subsequent year's expenditures and about 28.6% or $3,154,796 is restricted either for non-spendable or prepaid assets, by state statutes or by funding source.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund of $5,619,305 represented 22.0% of total general fund expenditures for the fiscal year.
- The Town of Kernersville's total debt of both governmental and business-type activities had a net decrease of $518,705 or 4.1% for the fiscal year ended June 30, 2012. The decrease was primarily the result of $1,065,247 in installment purchase contracts (various equipment) and normal principal retirement. Total debt currently stands at $12,063,891.
- The Town of Kernersville bond rating from the Standard and Poor's Corporation is AA on its street construction bonds. Moody's Investor Service rated this issue at A1. These street construction bonds represent the only general obligation debt of the Town.
- For fiscal year 2011-12, the Town's property tax rate was $0.4975 and supported 49.6% of governmental services to citizens and the community, based on government-wide statements.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Kernersville'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 Kernersville.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements.** These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: (1) the governmental funds statements; (2) the budgetary comparison statements; and (3) the proprietary fund statements.

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 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 assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

The government-wide statements present all of the Town's governmental activities. The governmental activities include the Town's basic services such as public safety, public service, parks and recreation, and general administration. Property taxes, other taxes, intergovernmental revenues, and state and federal grant funds finance most of these activities.

The required supplemental financial data are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements (see Exhibit 1 through 8) 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 of Kernersville, 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 Statues or the Town's budget ordinance. All of the funds of the Town of Kernersville can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting,* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed, short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Kernersville adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town

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's Internal Service Fund is classified as a type of proprietary fund. The Town uses an internal service fund to account for its Self-Insurance operations. Because this operation benefits governmental activities, the internal service fund has been included within the Governmental Activities in the government-wide financial statements. The Stormwater Enterprise Fund receives revenues from user fees for stormwater program expenses and capital improvements/repairs.

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 31 to 60 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 of Kernersville's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 61 of this report.

Government-Wide Financial Analysis

NET ASSETS
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 13,139,024	$ 13,599,661	$ 818,687	$ 542,619	$ 13,957,711	$ 14,142,280
Capital assets	128,457,155	131,087,531	266,719	378,855	128,723,874	131,466,386
Total assets	141,596,179	144,687,192	1,085,406	921,474	142,681,585	145,608,666
Long-term liabilities	3,537,141	3,763,621	106,068	76,729	3,643,209	3,840,350
Other liabilities	14,724,244	13,736,889	897	113,213	14,725,141	13,850,102
Total liabilities	18,261,385	17,500,510	106,965	189,942	18,368,350	17,690,452
Net assets:						
Invested in capital assets, net of related debt	122,184,493	124,206,117	229,098	304,776	122,413,591	124,510,893
Restricted for:						
Stabilization by State Statute	2,450,611	1,687,385	-	-	2,450,611	1,687,385
Unrestricted	(1,300,310)	1,293,180	749,343	503,485	(550,967)	1,796,665
Total net assets	$ 123,334,794	$ 127,186,682	$ 978,441	$ 808,261	$ 124,313,235	$ 127,994,943

Over time, net assets may serve as one useful indicator of a government's financial condition. The governmental assets of the Town of Kernersville exceeded liabilities by $124,313,235 of June 30, 2012. The largest portion of net assets reflects the Town's investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net assets (2.0%) represents resources that are subject to external restrictions on how they may be used, and a deficit of $550,967 remains in unrestricted net assets.

- Property taxes levied decreased $167,720 primarily due to a combined tax base decrease in commercial, industrial and public service property values of $31,727,051. However, the assessed residential property values increased $823,330. This year's property tax collection rate was 97.75%.
- Sales and use tax revenues increased $235,691 over last year's collections. This increase of 6.8% over last year's collections represents economic growth in Kernersville.
- Investment earnings decreased $7,122 from the prior year representing a 30.1% decrease due to the declining interest rates.

The net result of the above revenues and expenses was a decrease in total net assets in the amount of $3,681,708 for the year (Figure 3).

CHANGES IN NET ASSETS
Figure 3

	Governmental Activities		Business-type Activities		Total	
Revenues	2012	2011	2012	2011	2012	2011
Program Revenues:						
Charges for Services	$ 2,118,306	$ 1,966,149	$ 1,006,712	$ 955,981	$ 3,125,018	$ 2,922,130
Operating grants and contributions	2,871,690	1,888,145			2,871,690	1,888,145
Capital grants and contributions	248,058	2,145,173			248,058	2,145,173
General Revenues:						
Property taxes	12,696,485	12,817,420			12,696,485	12,817,420
Other taxes	246,837	232,061			246,837	232,061
Unrestricted intergovernmental revenues:	6,200,440	5,993,815			6,200,440	5,993,815
Investment earnings, unrestricted	16,355	22,952	222	747	16,577	23,699
Gain (loss) on disposal of capital assets	(1,581,296)	38,642			(1,581,296)	38,642
Miscellaneous	96,956	98,367			96,956	98,367
Total revenues	22,913,831	25,202,724	1,006,934	956,728	23,920,765	26,159,452
Expenditures						
General government	4,139,013	2,851,088			4,139,013	2,851,088
Public Safety	12,774,638	11,892,407			12,774,638	11,892,407
Public Service	8,087,763	8,420,247			8,087,763	8,420,247
Culture and recreation	1,544,984	1,455,623			1,544,984	1,455,623
Stormwater			659,424	615,230	659,424	615,230
Unallocated interest expense	396,651	448,776			396,651	448,776
Total expenses	26,943,049	25,068,141	659,424	615,230	27,602,473	25,683,371
Increase (decrease) in net assets before transfers	(4,029,218)	134,583	347,510	341,498	(3,681,708)	476,081
Transfers	177,330	290,330	(177,330)	(290,330)	-	-
Increase (decrease) in net assets	(3,851,888)	424,913	170,180	51,168	(3,681,708)	476,081
Net assets, July 1	127,186,682	126,761,769	808,261	757,093	127,994,943	127,518,862
Net assets, June 30	**$ 123,334,794**	**$ 127,186,682**	**$ 978,441**	**$ 808,261**	**$ 124,313,235**	**$ 127,994,943**

Governmental Activities. The Town's net assets from governmental activities decreased by $3,851,888 during the year. This net decrease is the result of several declining revenue sources as well as some roadway assets that were transferred from the Town to the State of North Carolina - Department of Transportation.

Business-Type Activities. The Town's net assets from business-type activities increased by $170,180 during the year. This net increase is the result of additional expenses.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Kernersville'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. Unreserved fund balance is one 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 of Kernersville. At the end of the fiscal year, the total General Fund fund balance was $9,699,392 of which $2,954,336 was restricted and $6,745,056 was unrestricted. Of the restricted portion, $14,490 was reserved for prepaid assets while $2,939,846 was restricted by state statutes and by use, such as the following: tourism, public safety, capital equipment and drug education.

Of the unrestricted portion of the total fund balance, $625,097 was committed to transportation or capital projects, $500,654 was assigned for subsequent year's expenditures and $5,619,305 was unassigned and available.

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 22.0% of total General Fund expenditures, while total fund balance represents 43.2% of that same amount.

The Town had eight Nonmajor Special Revenue or Capital Project Funds having a total fund balance of $1,337,494 at the fiscal year end. Of this amount, $200,460 was restricted by state statutes or use, while $1,137,034 was unrestricted. Of the unrestricted amount, $798,805 was committed for capital projects and $338,229 was assigned for subsequent year's expenditures.

There were several nonmajor special revenue funds with significant increases or decreases in fund balance. The Occupancy Tax Fund had an increase in fund balance of 24.7% due to the increase in tax collection. The Emergency Telephone System Fund saw a decrease in fund balance of 30.5% or $40,330 due to an increase in expenditures. The Contributions Fund had an increase in fund balance of $6,569 or 16.5% due to an increase in revenue and a decrease in expenditures. The Law Enforcement Forfeiture Fund had an increase in fund balance of $100,034 or 40.3% due to the combined increase in revenue and decrease in expenditures. The Transportation Capital Projects Ordinance Fund had a decrease in fund balance of 100% or $1,294,131 due to transfers from the fund to the General Fund, as a result of closing the project ordinance fund. The Kerner Mill Greenway Capital Projects Ordinance Fund had an increase in fund balance of 100% or $243,382, as the result of the establishment of the fund with a transfer from the General Fund.

At June 30, 2012, the governmental funds of the Town reported a combined fund balance of $11,036,886 or a 3.3% decrease over the previous year. The decrease is attributed to the overall loss of anticipated revenues due to the declining economy.

General Fund Budgetary Highlights: 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.

There were three budget amendments during the fiscal year. These three budget amendments resulted in a total net increase in budgeted general fund expenditures of $5,926,639 for the fiscal year, primarily due to increased expenditures associated with the following: (1) the purchase of real property and infrastructure for the Governing Body Department; (2) Fire Department purchase of real property, departmental supplies and materials, Fire Station 41 driveway improvements; (3) the Police

Department "Know Your Speed Grant"; (4) roadway construction projects at Bodenhamer Street, School Street, Union Cross Road and Angel Road; (5) emergency repairs on Oakhurst Street; (6) winter storm snow removal; (7) funds including energy grants that were budgeted yet unspent at the end of fiscal year 2010-11; (8) unexpected park repairs; (9) transfers to Capital Reserves for future transportation projects; and (10) a sewer extension payment to the City of High Point.

Numerous budget to actual variances in both revenues and expenditures warrant discussion. Overall, the economy has somewhat stabilized as noted by the Town's revenue sources. The greatest positive revenue budget variances are reflected in the property tax collections and in alcohol beverage tax revenues. A positive budget variance of $168,202 or 1.3% occurred with Ad valorem tax collections. A positive budget variance of $73,598 or 26.3% occurred with the collection of alcohol tax revenues. The greatest negative revenue budget variances were within the restricted intergovernmental revenues category. This category consists of state, local and federal grants. Actual grant revenues were down a total of $1,128,212 or 38.9% below budget primarily due to grant funds not being awarded as anticipated. The net budget variance in the Town's general fund revenue was negative $1,109,292 or 4.44%.

The expenditure budget to actual variances were positive in all expenditure categories: general government, public safety, public service and culture/recreation. The greatest positive budget variance in the General Government category was in the General Services Department at $113,629 or 14.2% due to improvements completed to the Public Services and Town Hall administrative buildings that were below budget.

In the Public Safety category, the Police, Fire and Inspection Department expenditures had a combined budget variance of 4.5% or $557,910. This variance is primarily attributed to the Police and Fire Departments. The Police Department had a budget variance of 4.8% or $328,398 primarily due to expense reductions in the following items: salaries and wages of unfilled sworn and non-sworn employee positions, employee training, departmental supplies, uniforms and accessories, and the maintenance and repair of communication equipment. The Fire Department had a budget variance of 4.3% or $222,705 due to expense reductions in the following items: personnel-related, departmental supplies and materials, maintenance and repair of fire trucks and communication devices, and driveway improvements budgeted yet unspent at fiscal year end.

The Public Service expenditure category had a positive variance of $2,059,434 or 23.4%. The largest expenditure variances in this category occurred in the Engineering, Transportation and Solid Waste Departments. The Engineering Department had a positive budget variance of $253,270 or 21.8% as a result of the following projects that were not completed at fiscal year end: sanitary sewer study, engineering plan for Brookford Road/Hospital Boulevard, and an environmental study of a closed wastewater treatment plant. The Transportation Department had a positive budget variance of $1,574,952 or 73.1% as a result of the following projects that were not completed at fiscal year end: Piney Grove Road widening, Union Cross Road turning lane and Angel Road improvements. The positive variance in the Solid Waste Department of $101,178 or 4.5% was primarily due to salary and group insurance savings, and professional services that were not completed.

The cumulative total expenditure variance was positive $3,009,043 or 10.5%. As such, no portion of fund balance was actually appropriated, compared to the budgeted amount of $1,916,151.

Proprietary Funds. The Town of Kernersville's proprietary funds provide the same type of information found in the government-wide statements. The Town has two proprietary funds: the Stormwater Utility Fund and the Workers' Compensation Fund. The Stormwater Enterprise Fund receives revenues from user fees for stormwater program expenses and capital improvements/repairs. The Stormwater Enterprise Fund total net assets increased 21.1% ($170,180) to a total of $978,441.

The Workers Compensation Self-Insurance Fund - the Town's only internal service fund - provides insurance for workers compensation claims for Town employees. The assets of this fund will fluctuate yearly, depending upon the number and dollar amount of claims made against it. Total net assets of the Self-Insurance Fund at the end of the fiscal year increased 104.0% ($165,062) to a total of $323,808. The large increase was due to charges for services that exceeded the operating expenses such as workers' compensation claims.

Capital Asset and Debt Administration

Capital Assets. The Town of Kernersville's investment in capital assets for its governmental activities as of June 30, 2012 totals $128,457,155 (net of accumulated depreciation). These assets include buildings, roads, and bridges, land, machinery and equipment, park facilities, and vehicles. The Town of Kernersville's investment in capital assets in the Business Type Fund or the Stormwater Fund totaled $266,719.

For the fiscal year ended June 30, 2012, major capital asset transactions for governmental activities include the following:

- Acquisition of land and rights-of-way increased in an amount of $184,855.
- Buildings and improvements saw an increase in the amount of $1,044,894.
- Infrastructure saw an increase in the amount of $248,058.
- Equipment and heavy equipment increased in the amount of $778,420.
- Vehicles for various departments increased in the amount of $244,186.

There were no increases in the capital assets in the Business Type fund (Stormwater Fund).

Additional information on the Town's capital assets can be found in Note 2.A.5 in the notes to the financial statements.

CAPITAL ASSETS (Net of Depreciation)

Figure 4

	Governmental Activities		Business-type Activities			
	2012	2011	2012	2011	Total 2012	Total 2011
Capital assets not being depreciated						
Land	$ 67,136,591	$ 68,258,257	$ -	$ -	$ 67,136,591	$ 68,258,257
Construction in progress	-	-	-	-	-	-
Total capital assets not being depreciated	**67,136,591**	**68,258,257**	-	-	**67,136,591**	**68,258,257**
Capital assets being depreciated						
Buildings and Improvements	6,635,188	5,799,316	-	-	6,635,188	5,799,316
Land improvements	1,408,271	1,515,758	-	-	1,408,271	1,515,758
Infrastructure	49,562,934	51,714,657	119,749	123,179	49,682,683	51,837,836
Equipment and heavy equipment	3,014,160	2,897,343	126,981	226,355	3,141,141	3,123,698
Vehicles	700,011	902,200	19,989	29,321	720,000	931,521
	61,320,564	62,829,274	266,719	378,855	61,587,283	63,208,129
	$ 128,457,155	$ 131,087,531	$ 266,719	$ 378,855	$ 128,723,874	$ 131,466,386

Long-Term Debt. As of June 30, 2012, the Town of Kernersville had total bonded debt outstanding of $4,800,000 for street construction. This debt was issued in fiscal year 2003-04 and the last payment on that debt is scheduled to occur in May, 2024. This is a general obligation debt and, thus, is backed by the full faith and credit of the Town.

OUTSTANDING DEBT

Figure 5

	Governmental Activities		Business-type Activities			
	2012	2011	2012	2011	Total 2012	Total 2011
Buildings and Improvements	$ 4,800,000	$ 5,200,000	$ -	$ -	$ 4,800,000	$ 5,200,000
Land improvements	5,200,000	5,600,000	-	-	5,200,000	5,600,000
Vehicles	2,063,891	1,708,517	36,458	74,079	2,100,349	1,782,596
	$ 12,063,891	$ 12,508,517	$ 36,458	$ 74,079	$ 12,100,349	$ 12,582,596

The Town of Kernersville's total debt of both governmental and business-type activities had a net decrease of $482,247 or 3.8% for the fiscal year ended June 30, 2012. The decrease was primarily the net result of installment purchase contracts (various equipment) and normal principal retirement. Total debt currently stands at $12,100,349.

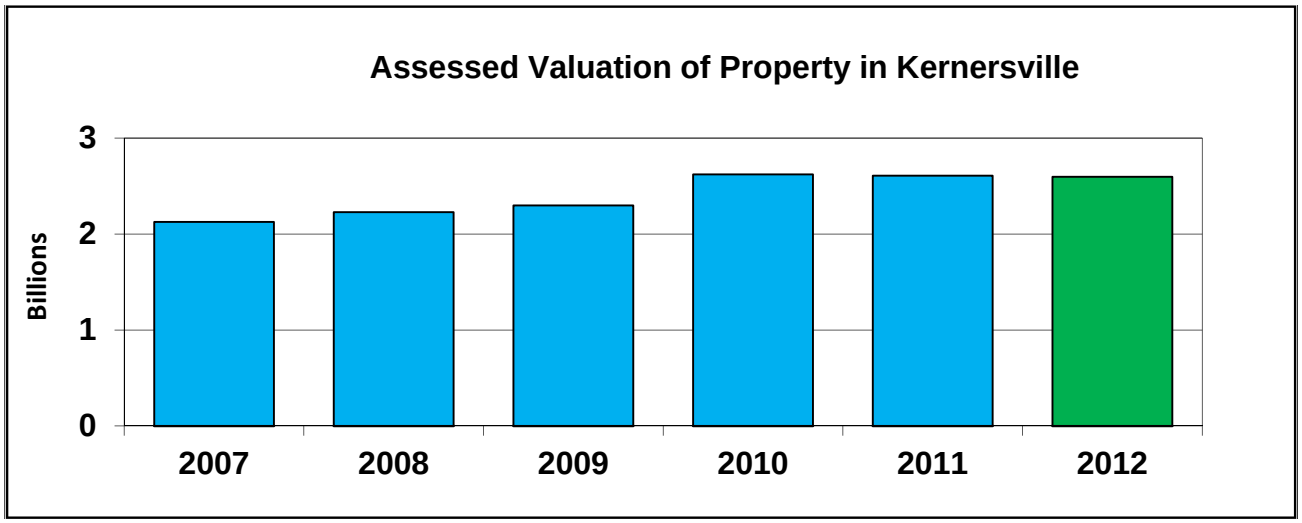
Street construction bonds issued in fiscal year 2003-04 represent the only general obligation debt of the Town. As mentioned in the financial highlights section of this document, the Standard and Poor's Corporation rated the street construction debt AA. The Moody's Investor Service rating remains at A1. These ratings are a clear indication of the Town's financial condition and its consistency for managing its finances well.

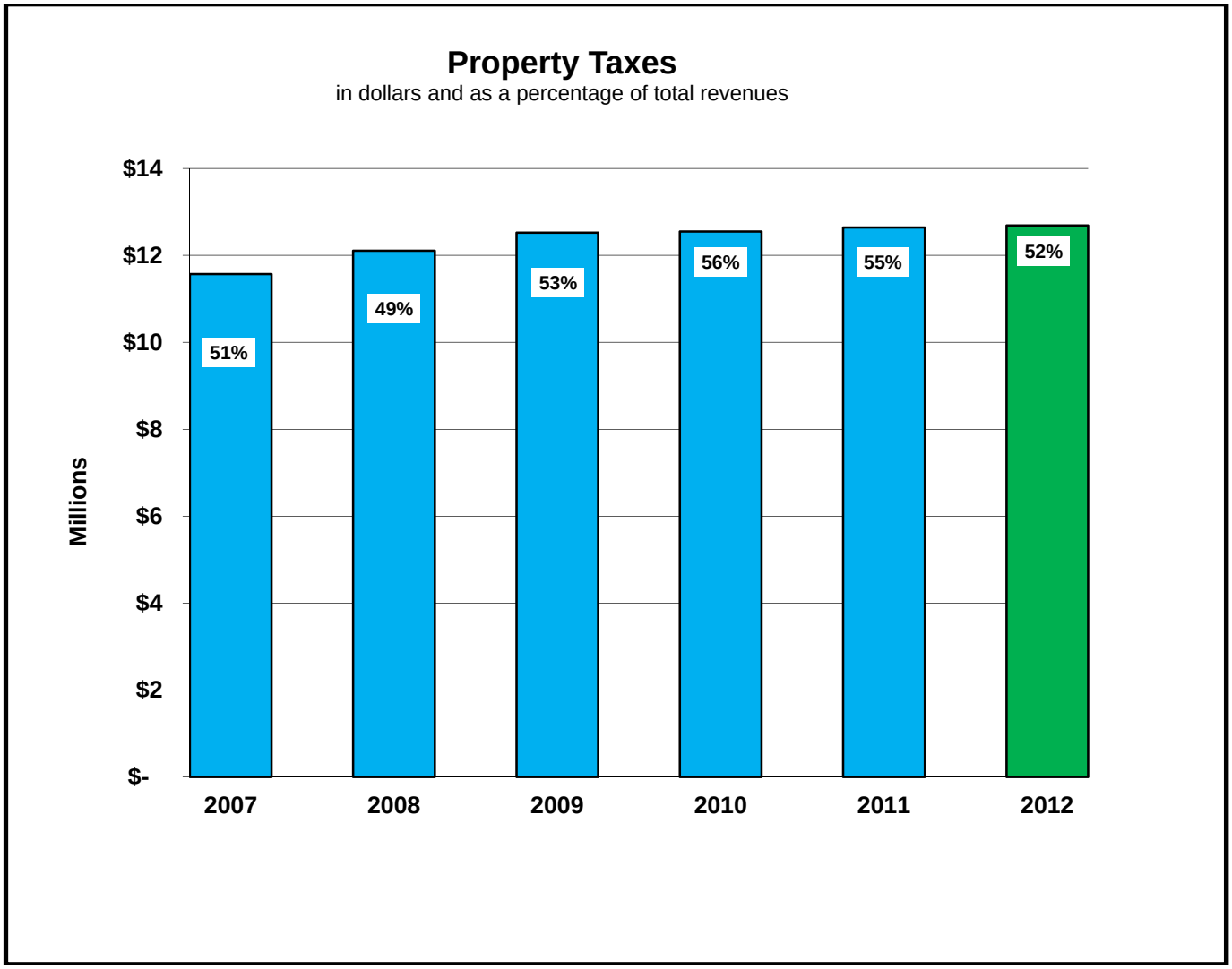
North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within the government's boundaries or $205,711,587. The total bonded debt outstanding at the close of this fiscal year was $4,800,000, resulting in a legal debt margin for the Town of Kernersville of $200,911,587. Hence, the total bonded debt for the Town of Kernersville is 2.33%. The Town has no authorized but unissued debt at June 30, 2012.

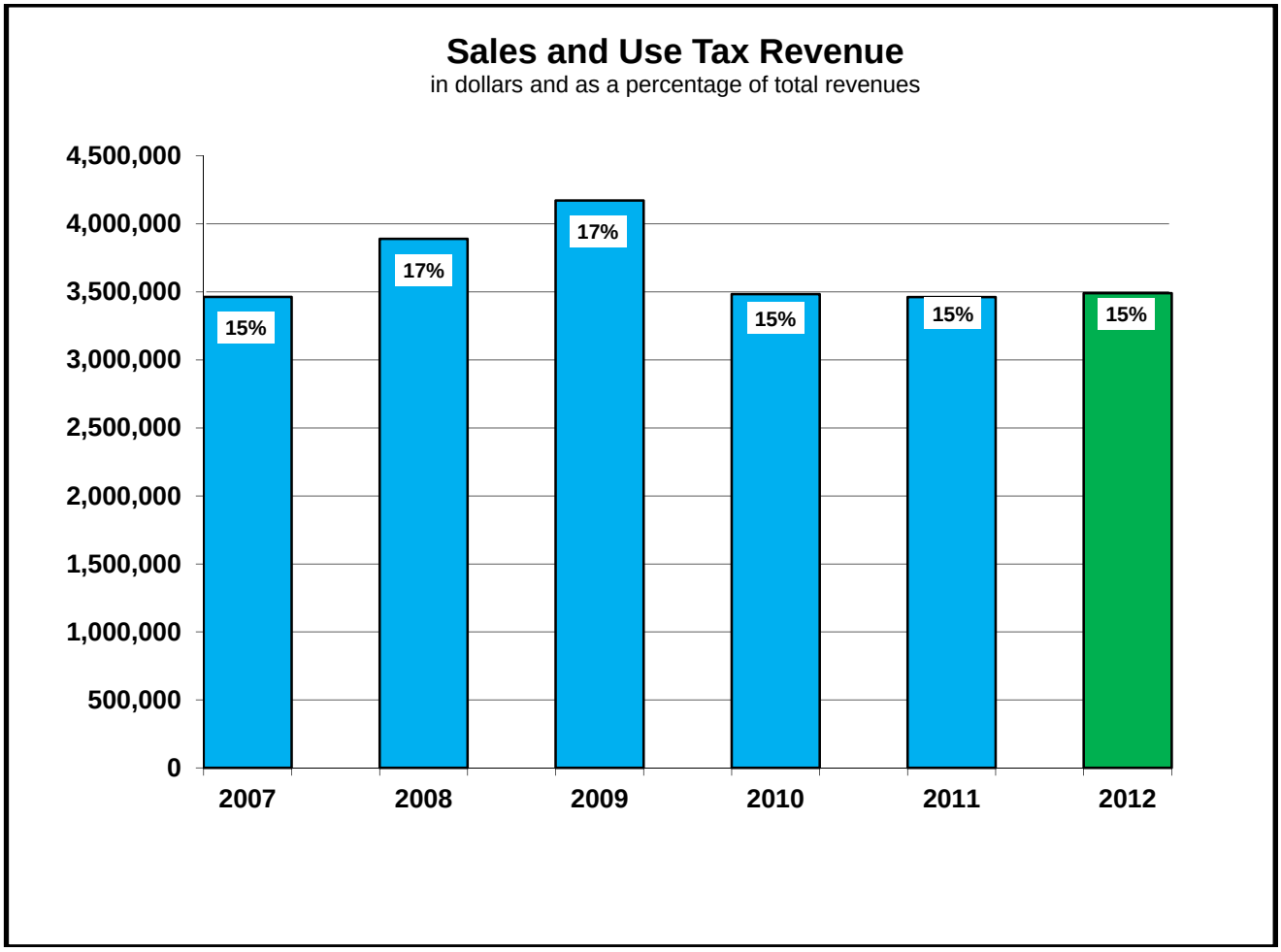
Additional information regarding the Town's long-term debt can be found on Section 2.B.7. of the notes.

Economic Factors and Next Year's Budgets and Rates

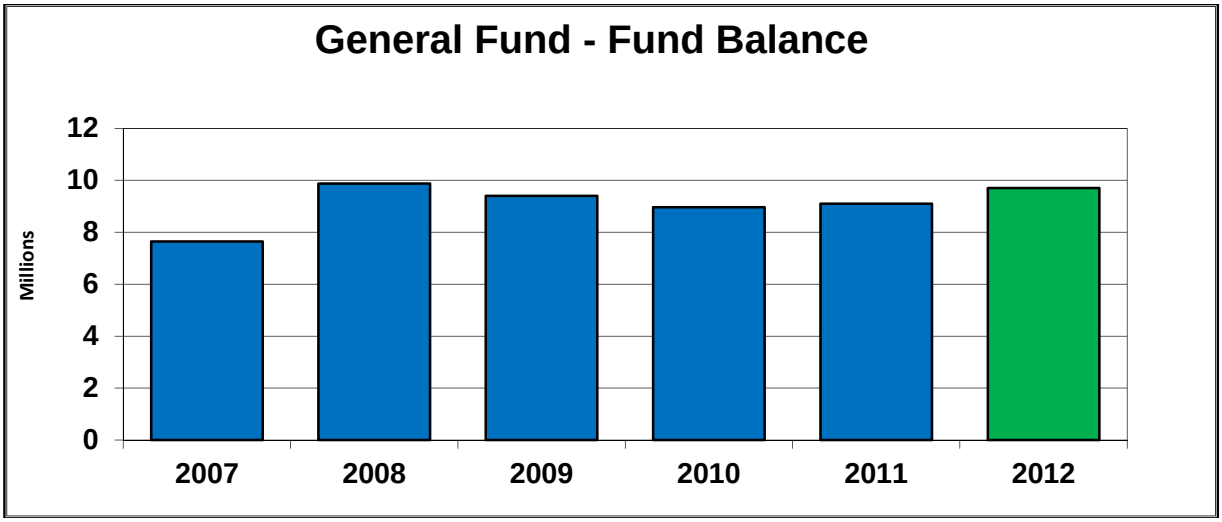
The following key economic information reflects the growth and prosperity in Kernersville:




Property Taxes
in dollars and as a percentage of total revenues
Millions
$14
$12
$10
$8
$6
$4
$2
$-
51%
49%
53%
56%
55%
52%
2007
2008
2009
2010
2011
2012



The preceding graphs show that the Town's largest source of revenue - property taxes - increased steadily from 2007 to 2012. The Town's second largest revenue source - sales and use taxes - increased steadily from 2005 to 2009, with a sharp drop off in 2010. The sales and use tax collected in fiscal year 2011-12 is about the same percentage of total revenues collected compared to fiscal year 2010-11. Most other revenues have remained somewhat stable.



As indicated earlier, fund balance can be a good indicator of the General Fund's liquidity. The Town's fund balances have remained relatively stable over the years, as can be seen from the graph above.

While labor statistics are not available for the Town of Kernersville, they are available for both Forsyth County and Guilford County, where Kernersville is located. As of June 30, 2012, the unemployment rate for Forsyth County was 9.5% and Guilford County was 10.3%, compared to the State rate of 9.4% during the same period. The data was obtained from the Employment Security Commission of North Carolina.

Budget Highlights for the Upcoming Fiscal Year Ending June 30, 2013

Property taxes, the Town's largest source of revenue, is expected to increase slightly compared to the amount collected in fiscal year 2011-12, as well as Sales and Use Tax revenues. These revenues, among others, are expected to fund programs currently in place and provide for the addition of $1,797,000 in equipment purchases, which will be financed under North Carolina General Statute 160A-20.

For fiscal year ending June 30, 2013, budgeted expenditures in the General Fund increased $870,194 over June 30, 2012 actual expenditures to $26,437,542. The largest increments are for capital outlay and personnel-related costs. Major capital outlay items for fiscal year 2012-13 (all funds) are the following:

All vehicles and equipment, including items purchased via installment purchasing, total $1,951,800.

- Five vehicles - $120,000.
- 31 emergency response (APX 6000) radios - $148,800.
- Fire Department aerial truck - $1,100,000.
- Breathing air cylinders - $34,000.
- Thermal imager for Tactical Team - $6,000.
- Automated recycling truck - $250,000.
- Automated refuse truck - $250,000.
- Crew cab truck - $30,000.
- Mower - $13,000.

The tax rate for the fiscal year ended June 30, 2013 is $0.4975 per $100 of property valuation.

Requests for Information

This report is designed to provide an overview of the Town's 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 the Finance Director, Town of Kernersville, 134 E. Mountain Street, Post Office. Drawer 728, Kernersville, North Carolina 27285.

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BASIC FINANCIAL STATEMENTS

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Exhibit 1

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2012

ASSETS	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and investments	$ 9,554,167	$ 818,687	$ 10,372,854
Prepaid assets	14,490	-	14,490
Receivables:			
Taxes receivable, net	528,968	-	528,968
Accrued interest receivable on taxes	91,727	-	91,727
Accounts receivable, net	373,466	-	373,466
Due from other governments	2,076,032	-	2,076,032
Restricted cash and cash equivalents	500,174	-	500,174
Total current assets	13,139,024	818,687	13,957,711
Noncurrent assets:			
Capital assets:			
Capital assets not depreciated	67,136,591	-	67,136,591
Other capital assets, net of depreciation	61,320,564	266,719	61,587,283
Total noncurrent assets	128,457,155	266,719	128,723,874
Total assets	141,596,179	1,085,406	142,681,585
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	965,697	49,765	1,015,462
Claims and judgments	144,255	-	144,255
Unearned revenues	47,683	-	47,683
Accrued interest payable	86,375	1,586	87,961
Due within one year	2,293,131	54,717	2,347,848
Total current liabilities	3,537,141	106,068	3,643,209
Long-term liabilities:			
Due in more than one year	14,724,244	897	14,725,141
Total long-term liabilities	14,724,244	897	14,725,141
Total liabilities	18,261,385	106,965	18,368,350
NET ASSETS			
Invested in capital assets, net of related debt	122,184,493	229,098	122,413,591
Restricted for:			
Stabilization by state statute	2,450,611	-	2,450,611
Unrestricted	(1,300,310)	749,343	(550,967)
Total net assets	$ 123,334,794	$ 978,441	$ 124,313,235

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Exhibit 2

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:							
General government	$ 4,139,013	$ 251,053	$ 1,031,904	$ -	$ (2,856,056)	$ -	$ (2,856,056)
Public safety	12,774,638	167,073	543,292	-	(12,064,273)	-	(12,064,273)
Public service	8,087,763	1,433,066	1,296,458	248,058	(5,110,181)	-	(5,110,181)
Culture and recreation	1,544,984	267,114	36	-	(1,277,834)	-	(1,277,834)
Unallocated interest expense	396,651	-	-	-	(396,651)	-	(396,651)
Total governmental activities	26,943,049	2,118,306	2,871,690	248,058	(21,704,995)	-	(21,704,995)
Business-type activities:							
Stormwater	659,424	1,006,712	-	-	-	347,288	347,288
Total business-type activities	659,424	1,006,712	-	-	-	347,288	347,288
Total government	$ 27,602,473	$ 3,125,018	$ 2,871,690	$ 248,058	(21,704,995)	347,288	(21,357,707)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					12,696,485	-	12,696,485
Other taxes					246,837	-	246,837
Unrestricted intergovernmental revenues					6,200,440	-	6,200,440
Unrestricted investment earnings					16,355	222	16,577
Loss on disposal of capital assets					(1,581,296)	-	(1,581,296)
Miscellaneous					96,956	-	96,956
Total general revenues not including transfers					17,675,777	222	17,675,999
Transfers					177,330	(177,330)	-
Total general revenues and transfers					17,853,107	(177,108)	17,675,999
Change in net assets					(3,851,888)	170,180	(3,681,708)
Net assets - beginning					127,186,682	808,261	127,994,943
Net assets - ending					$ 123,334,794	$ 978,441	$ 124,313,235

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

Exhibit 3

	Major Fund	Nonmajor Funds	
ASSETS	**General Fund**	**Other Governmental Funds**	**Total Governmental Funds**
Cash and cash equivalents	$ 7,746,535	$ 1,335,912	$ 9,082,447
Restricted cash	499,061	1,113	500,174
Prepaid assets	14,490	-	14,490
Taxes receivable, net	528,968	-	528,968
Accounts receivable, net	364,753	8,713	373,466
Due from other governments	2,076,032	-	2,076,032
Total assets	$ 11,229,839	$ 1,345,738	$ 12,575,577
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ 953,796	$ 8,244	$ 962,040
Unearned revenues	47,683	-	47,683
Deferred revenues	528,968	-	528,968
Total liabilities	1,530,447	8,244	1,538,691
Fund balances:			
Non-spendable			
Prepaid assets	14,490	-	14,490
Restricted			
Stabilization by state statute	2,440,785	9,826	2,450,611
Capital equipment	499,061	-	499,061
Tourism	-	27,557	27,557
Public safety	-	119,175	119,175
Drug education	-	43,902	43,902
Committed			
Capital projects	625,097	798,805	1,423,902
Assigned			
Subsequent year's expenditures	500,654	338,229	838,883
Unassigned	5,619,305	-	5,619,305
Total fund balances	9,699,392	1,337,494	11,036,886
Total liabilities and fund balances	$ 11,229,839	$ 1,345,738	

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	128,457,155
Other assets are not available to pay for current expenditures and therefore are deferred in the funds (accrued interest receivable from taxes).	91,727
The Self-Insurance Internal Service Fund is used by management to charge the costs of workers' compensation claims to the General Fund. The assets and liabilities of the Self-Insurance Internal Service Fund are included in governmental activities in the statement of net assets.	323,808
Liabilities for earned but deferred revenues in fund statements.	528,968
Some liabilities, including long-term debt ($17,017,375) and accrued interest ($86,375), are not due and payable in the current period and therefore are not reported in the funds.	(17,103,750)
Net assets of governmental activities	$ 123,334,794

The accompanying notes are an integral part of this statement.

Exhibit 4

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	Major Fund	Nonmajor Funds	
	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Ad valorem taxes	$ 12,687,750	$ -	$ 12,687,750
Other taxes and licenses	152,196	94,641	246,837
Unrestricted intergovernmental	6,200,440	-	6,200,440
Restricted intergovernmental	1,771,081	155,371	1,926,452
Penalties and interest	33,276	1,966	35,242
Contributions and donations	889,458	-	889,458
Other general revenues	97,070	119,736	216,806
Functionally related revenues	2,054,306	-	2,054,306
Total revenues	23,885,577	371,714	24,257,291
Expenditures:			
Current:			
General government	4,462,355	-	4,462,355
Public safety	11,217,203	396,412	11,613,615
Public service	6,420,607	2,400	6,423,007
Culture and recreation	1,241,363	110,266	1,351,629
Debt service:			
Principal	1,824,519	40,728	1,865,247
Interest and other charges	401,301	-	401,301
Total expenditures	25,567,348	549,806	26,117,154
Excess of revenues over expenditures	(1,681,771)	(178,092)	(1,859,863)
Other financing sources (uses):			
Transfers from other funds	1,680,348	368,806	2,049,154
Transfers to other funds	(581,138)	(1,365,416)	(1,946,554)
Issuance of debt - installment purchase financing	1,185,500	197,500	1,383,000
Total other financing sources (uses)	2,284,710	(799,110)	1,485,600
Net change in fund balances	602,939	(977,202)	(374,263)
Fund balances, beginning	9,096,453	2,314,696	11,411,149
Fund balances, ending	$ 9,699,392	$ 1,337,494	$ 11,036,886

The accompanying notes are an integral part of this statement.

Exhibit 5

TOWN OF KERNERSVILLE, NORTH CAROLINA
RECONCILATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Total net change in fund balances - governmental funds	$	(374,263)
Amounts reported for governmental activities in the statement of activities are different because:		
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 depreciation ($3,549,493) exceeded capital outlays ($2,177,625) in the current period.		(1,371,868)
Transfer of capital assets from the Stormwater fund to governmental funds		74,730
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Amount of donated assets		248,058
Change in deferred revenues		(26,078)
Change in accrued interest receivable on property taxes		15,775
The issuance ($1,383,000) of long-term debt provides current financial resources to governmental funds, while the repayment ($1,865,247) of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.		482,247
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		(626,272)
Net pension obligation		(74,428)
Net other postemployment benefit obligation		(797,884)
Change in accrued interest payable		14,329
Loss on disposal of capital assets		(1,581,296)
Net income of internal service funds determined to be governmental-type.		165,062
Changes in net assets of governmental activities	$	(3,851,888)

The accompanying notes are an integral part of this statement.

Exhibit 6

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance With Final
	Original	Final	Amounts	Positive (Negative)
Revenues:				
Ad valorem taxes	$ 12,420,119	$ 12,519,548	$ 12,687,750	$ 168,202
Other taxes and licenses	111,700	135,287	152,196	16,909
Unrestricted intergovernmental	5,904,213	6,077,181	6,200,440	123,259
Restricted intergovernmental	698,938	2,899,293	1,771,081	(1,128,212)
Penalties and interest	35,700	90,800	33,276	(57,524)
Contributions and donations	815,751	1,069,380	889,458	(179,922)
Other general revenues	47,500	93,170	96,956	3,786
Functionally related revenues	1,832,454	2,110,096	2,054,306	(55,790)
Total revenues	21,866,375	24,994,755	23,885,463	(1,109,292)
Expenditures:				
Current:				
General government	2,919,796	4,795,979	4,505,160	290,819
Public safety	12,327,105	12,424,475	11,866,565	557,910
Public service	5,598,462	8,812,872	6,753,438	2,059,434
Culture and recreation	1,259,189	1,394,145	1,293,265	100,880
Debt service	545,200	1,148,920	1,148,920	-
Total expenditures	22,649,752	28,576,391	25,567,348	3,009,043
Excess of revenues under expenditures	(783,377)	(3,581,636)	(1,681,885)	1,899,751
Other financing sources				
Transfers from other funds	914,307	1,595,637	1,680,348	84,711
Transfers to other funds	(1,477,130)	(1,115,652)	(1,058,188)	57,464
Installment purchase financing proceeds	646,200	1,185,500	1,185,500	-
Total other financing sources	83,377	1,665,485	1,807,660	142,175
Excess of revenues and other sources over (under) expenditures and other uses	(700,000)	(1,916,151)	125,775	2,041,926
Fund balance appropriated	700,000	1,916,151	-	(1,916,151)
Excess of revenues, other sources and fund balance appropriated over expenditures and other uses	$ -	$ -	125,775	$ 125,775
Fund balance, beginning			8,948,520	
Fund balance, ending			9,074,295	
A legally budgeted capital reserve fund is consolidated into the General Fund for reporting purposes:				
Fund balance, beginning			147,933	
Interest income			114	
Transfer from the General Fund			477,050	
Fund balance, ending (Exhibit 4)			$ 9,699,392	

The accompanying notes are an integral part of this statement.

Exhibit 7

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

ASSETS	Enterprise Fund	Internal Service Fund
Current assets:		
Cash and cash equivalents	$ 818,687	$ 471,720
Total current assets	818,687	471,720
Noncurrent assets:		
Other capital assets, net	266,719	-
Total noncurrent assets	266,719	-
Total assets	$ 1,085,406	$ 471,720
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	$ 49,765	$ 3,657
Claims and judgments	-	144,255
Accrued interest payable	1,586	-
Current maturities of long-term debt	54,717	-
Total current liabilities	106,068	147,912
Noncurrent liabilities:		
Noncurrent portion of long-term debt	897	-
Total noncurrent liabilities	897	-
Total liabilities	106,965	147,912
Net assets:		
Investment in capital assets, net of related debt	229,098	-
Unrestricted	749,343	323,808
Total net assets	978,441	323,808
Total liabilities and net assets	$ 1,085,406	$ 471,720

The accompanying notes are an integral part of this statement.

Exhibit 8

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Enterprise Fund	Internal Service Fund
OPERATING REVENUES		
Charges for services	$ 1,006,712	$ 196,870
TOTAL OPERATING REVENUES	1,006,712	196,870
OPERATING EXPENSES		
Personnel services	332,467	-
Depreciation	37,406	-
Other current charges	287,188	-
Claims	-	(2,887)
Stop-loss coverage	-	27,276
Administration	-	7,500
TOTAL OPERATING EXPENSES	657,061	31,889
OPERATING INCOME	349,651	164,981
NON OPERATING REVENUES (EXPENSES)		
Investment earnings	222	81
Interest and fees	(2,363)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(2,141)	81
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	347,510	165,062
CONTRIBUTIONS AND TRANSFERS		
Transfers from other funds	212,332	-
Transfers to other funds	(389,662)	-
CHANGE IN NET ASSETS	170,180	165,062
TOTAL NET ASSETS, beginning of year	808,261	158,746
TOTAL NET ASSETS, end of year	$ 978,441	$ 323,808

The accompanying notes are an integral part of this statement.

Exhibit 9

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Enterprise Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 1,006,712	$ -
Cash paid for goods and services	(263,802)	(27,276)
Cash paid to employees	(325,643)	-
Receipts from other funds	-	196,870
Payment of claims	-	(161,738)
Payment of fee to administrator	-	(7,500)
NET CASH PROVIDED BY OPERATING ACTIVITIES	417,267	356
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in from other funds	212,332	-
Transfers out to other funds	(314,932)	-
NET CASH USED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	(102,600)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on installment debt	(36,458)	-
Interest paid on installment debt	(2,363)	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(38,821)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	222	81
NET CASH PROVIDED BY INVESTING ACTIVITIES	222	81
NET INCREASE IN CASH AND CASH EQUIVALENTS	276,068	437
CASH AND CASH EQUIVALENTS, BEGINNING	542,619	471,283
CASH AND CASH EQUIVALENTS, ENDING	$ 818,687	$ 471,720
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES		
Transfer of capital assets to governmental fund	$ 74,730	$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 349,651	$ 164,981
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	37,406	-
Change in assets and liabilities:		
Increase (decrease) in account payable and accrued liabilities	23,386	(15,112)
Increase in claims and judgments	-	(149,513)
Increase in accrued vacation pay	6,824	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 417,267	$ 356

The accompanying notes are an integral part of this statement.

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Note 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Kernersville 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 Kernersville (the Town) is a municipal corporation which is governed by an elected mayor and a five-member Board of Aldermen. As required by generally accepted accounting principles, these financial statements present all funds, agencies, boards, commissions and authorities which are controlled by or are financially dependent upon the Town.

B. Basis of Presentation, Basis of Accounting

Government-Wide Statements: The statement of net assets and the statement of activities display information about the financial activities of the overall government. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for 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 are presented as general revenues. The effects of interfund activity have been eliminated from the government-wide financial statements.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category - *governmental and proprietary* - are presented. The emphasis of fund financial statements is on major governmental funds and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

The Town reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, state and federal grants, and various other taxes and licenses. The primary expenditures are for public safety, streets and maintenance, sanitation and general government services. Additionally, the Town has legally adopted a Capital Reserve Fund. Under GASB 54 guidance, the Capital Reserve Fund is consolidated in the General Fund. The budgetary comparison for the Capital Reserve Fund has been included in the supplementary information. The Capital Reserve Fund is used to account for resources to be used for future major capital purchases or projects.

The Town reports the following major enterprise fund:

Stormwater Fund - The purpose of the Stormwater Enterprise Fund is to finance the operations of the Stormwater Division, which was created in response to State and Federal mandates, as well as a desire of the citizenry to ensure that the Town remains a quality community, especially in regard to environmental stewardship.

The Town reports the following nonmajor governmental funds:

Special Revenue Funds - The Town reports five Special Revenue funds. Occupancy Tax Fund accounts for the revenue generated by the tax charged on hotel and motel rooms to be used to promote travel and tourism, and tourism-related expenditures; Emergency Telephone System Fund accounts for 911 system subscriber fees and levies; Contributions Fund accounts for donations used to support drug education programs; Law Enforcement Forfeitures Fund accounts for restricted proceeds resulting from the sale of properties seized in criminal investigations; and Federal Justice Assistance Grant Fund accounts for restricted proceeds and uses of federal justice assistance grants.

Capital Projects Funds - The Town reports three nonmajor Capital Project funds. Transportation Capital Projects Ordinance Fund accounts for financial resources to be used for various major street construction; Public Works Facility Capital Projects Ordinance Fund accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the Public Works Facility; and Kerner Mill Greenway Capital Projects Ordinance Fund accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the Kerner Mill Greenway.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

Additionally, the Town reports the following nonmajor proprietary funds:

Internal Service Funds - The Internal Service funds account for operations that provide services to other departments or agencies of the Town, or to other governments, on a cost-reimbursement basis. The Town has one Internal Service Fund. The Self-Insurance Fund accounts for workers' compensation insurance provided for the Town's employees.

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

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and 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.

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 installment purchase agreements are reported as other financing sources.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

The Town considers all revenues available if they are collected within 90 days after year end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the subsequent year. Also, as of January 1, 1993, state law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Forsyth County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the county, including the Town of Kernersville. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Forsyth County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the state at year end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash.

Grant revenues which are unearned at year end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

The proprietary funds are presented in the financial statements on the accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period they are incurred. As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations.

Note 1. Summary of Significant Accounting Policies (Continued)

C. 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, the Special Revenue Funds, and the Enterprise Fund. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the Capital Projects Funds.

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for multi-year funds. The Town Manager is authorized to make budget amendments to all departments and line items within the same fund and is required to have such amendments entered into the minutes of the next regular meeting of the Board of Aldermen. During the year, amendments to the original budget were necessary, the effects of which were not material.

D. Assets, Liabilities and Net Assets/Fund Balance

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by state law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States; or obligations fully guaranteed, both as to principal and interest, by the United States; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets/Fund Balance (Continued)

3. Restricted Assets

The unexpended proceeds from installment purchase agreements in the amount of $499,061 in the General Fund and $1,113 in the Emergency Telephone System Fund are classified as restricted assets because their use is completely restricted to the purpose for which the installment purchase agreements were issued.

4. Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies and creates a lien for ad valorem taxes on July 1, the beginning of the fiscal year. These taxes are due on September 1; however, interest does not accrue until the following January 6. The taxes levied are based on the assessed values as of January 1, 2011. As allowed by state law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Prepaid Assets

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain amount and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: buildings and improvements - $20,000; infrastructure - $100,000; and furniture, equipment and vehicles - $5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2002 consist of road network assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets/Fund Balance (Continued)

7. Capital Assets (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure, buildings and improvements	25 to 50 years
Furniture, equipment, heavy equipment, and vehicles	5 to 10 years
Software and computer equipment	3 years

8. Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net assets.

9. Compensated Absences

The vacation policy of the Town provides for a maximum accumulation of 24 months of earned vacation leave based on an employee's years of service. Such leave is fully vested when earned. At the end of each calendar year, any vacation balance in excess of the amount that an employee could accrue in a 24-month period (not to exceed ten days) is converted to sick leave. Any accrued vacation not converted to sick leave in excess of the maximum accumulation shall be cancelled.

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 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 has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets/Fund Balance (Continued)

10. Net Assets/Fund Balances

Net Assets

Net assets in the government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or the 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.

Prepaid Assets - portion of fund balance that is not an available resource because it represents the year end balance of costs applicable to future accounting periods, which are not spendable resources.

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

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

Restricted for Capital Equipment - portion of fund balance that represents unspent installment purchase proceeds that are restricted for the purchase of certain capital equipment.

Restricted for Tourism - portion of fund balance restricted by occupancy tax revenues for tourism-related expenditures.

Restricted for Public Safety - portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures and for law enforcement expenditures.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets/Fund Balance (Continued)

10. Net Assets/Fund Balances (Continued)

Fund Balances (Continued)

Restricted Fund Balance (Continued)

Restricted for Drug Education - portion of fund balance that is restricted by revenue source for drug education programs.

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 Kernersville's Board (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

Committed for Capital Projects - portion of fund balance that is set aside by the Board for capital projects.

Assigned Fund Balance - portion of fund balance that the Town of Kernersville intends to use for specific purposes imposed by majority vote by quorum of the Town of Kernersville's Board (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

Unassigned Fund Balance - portion of fund balance that has not been restricted, committed, or assigned to specific purposes.

The Town of Kernersville has a revenue-spending practice that provides practices for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond and installment financing proceeds, federal funds, state funds, local non-town funds, town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and finally unassigned fund balance. The Finance Officer has the authority to deviate from this practice, if it is in the best interest of the Town.

The Town of Kernersville has adopted a minimum fund balance policy for the general fund, which instructs management to conduct business of the Town in such a manner that available fund balance is at least equal to or greater than 20% of budgeted expenditures.

Note 2. Detail Notes on All Funds

A. Assets

1. Deposits

All 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 agents in the unit'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 its name. The amount of the pledged collateral is based on an approved averaging method for noninterest-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 under-collateralization, 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 formal 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, 2012, the Town's deposits had a carrying amount of $6,277,738 and a bank balance of $6,578,516. Of the bank balance, $1,225,899 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

At June 30, 2012, the Town's petty cash fund totaled $5,750.

2. Investments

At June 30, 2012, the Town had $4,589,540 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk.

Note 2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

3. Due from Other Governments

Amounts due from other governments consist of the following:

	Governmental Activities
General Fund	
Sales and use tax distribution	$ 912,480
Utilities franchise, video programming, solid waste, and telecommunications tax	330,489
Property tax collections due from Forsyth County	48,240
Alcohol beverage tax	57,478
Sales tax refunds	259,585
Grants	467,760
	$ 2,076,032

4. Receivables - Allowance for Doubtful Accounts

The receivables shown in the balance sheet are presented net of the following allowances for doubtful accounts:

	June 30, 2012
General Fund	
Taxes receivable	$ 73,000

Note 2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 68,258,257	$ 184,855	$ (1,306,521)	$ 67,136,591
Capital assets being depreciated:				
Buildings and improvements	10,430,518	$ 1,044,894	$ -	11,475,412
Land improvements	2,687,031	-	-	2,687,031
Infrastructure	85,742,379	248,058	(501,489)	85,488,948
Equipment and heavy equipment	10,608,430	778,420	(633,119)	10,753,731
Vehicles	3,285,205	244,186	(264,293)	3,265,098
Total capital assets being depreciated	112,753,563	$ 2,315,558	$ (1,398,901)	113,670,220
Less accumulated depreciation for:				
Buildings and improvements	4,631,202	$ 209,022	$ -	4,840,224
Land improvements	1,171,273	107,487	-	1,278,760
Infrastructure	34,027,722	2,125,006	(226,714)	35,926,014
Equipment and heavy equipment	7,711,087	661,603	(633,119)	7,739,571
Vehicles	2,383,005	446,375	(264,293)	2,565,087
Total accumulated depreciation	49,924,289	$ 3,549,493	$ (1,124,126)	52,349,656
Total capital assets being depreciated, net	62,829,274			61,320,564
Governmental activity capital assets, net	$ 131,087,531			$ 128,457,155

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

General government	$ 137,352
Public safety	710,323
Public service	2,460,913
Culture and recreation	240,905
Total governmental activities	$ 3,549,493

Note 2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets being depreciated:				
Infrastructure	$ 137,185	$ -	$ -	$ 137,185
Equipment and heavy equipment	405,152	-	(89,405)	315,747
Vehicles	68,930	-	(27,725)	41,205
Total capital assets being depreciated	611,267	$ -	$ (117,130)	494,137
Less accumulated depreciation for:				
Infrastructure	14,006	$ 3,430	$ -	17,436
Equipment and heavy equipment	178,797	31,575	(21,606)	188,766
Vehicles	39,609	2,401	(20,794)	21,216
Total accumulated depreciation	232,412	$ 37,406	$ (42,400)	227,418
Total capital assets being depreciated, net	378,855			266,719
Business-type activity capital assets, net	$ 378,855			$ 266,719

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

Stormwater	$ 37,406
Total business-type activities	$ 37,406

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities

1. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Governmental Activities	Business-Type Activities	Total
Payable to vendors and others	$ 605,587	$ 36,879	$ 642,466
Accrued payroll and related liabilities	360,110	12,886	372,996
Total accounts payable and accrued liabilities	$ 965,697	$ 49,765	$ 1,015,462

2. Pension Plan and Postemployment Obligations

a. ***Local Governmental Employees' Retirement System***

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

Funding Policy. Plan members are required to contribute 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.88% and 7.04%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Kernersville are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2012, 2011 and 2010 were $742,371, $678,490 and $583,089, respectively. The contributions made by the Town equaled the required contributions for each year.

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

b. ***Supplemental Retirement Income Plan***

Plan Description. The Town of Kernersville contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Additionally, the Town has elected to include all permanent, full-time employees under this plan. The Supplemental Retirement Income Plan 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. 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 5% of each sworn law enforcement officer's salary, and all amounts contributed are vested immediately. In addition, the Town has elected to contribute an amount equal to 2% of each non-sworn participant's salary. Also, participants may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2012 were $367,825, which consisted of $154,470 from the Town and $213,355 from employees.

c. ***Law Enforcement Officers' Special Separation Allowance***

Plan Description. The Town of Kernersville administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to 0.85% 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. A stand-alone financial report is not issued for this plan.

All full-time law enforcement officers of the Town of Kernersville are covered by the Separation Allowance.

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

c. ***Law Enforcement Officers' Special Separation Allowance (Continued)***

At December 31, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	66
Total	69

Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions:

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2011 was 19 years.

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

c. ***Law Enforcement Officers' Special Separation Allowance (Continued)***

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	$ 149,457
Interest on net pension obligation	39,900
Adjustment to annual required contribution	(47,604)
Annual pension cost	141,753
Contributions made	(67,325)
Increase in net pension obligation	74,428
Net pension obligation, beginning of year	797,991
Net pension obligation, end of year	$ 872,419

Funded Status and Funding Process: As of December 31, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was $1,517,681. The covered payroll (annual payroll of active employees covered by the plan) was $3,048,252, and the ratio of the UAAL to the covered payroll was 49.79%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Three-Year Trend Information:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/10	$ 113,892	43.07%	$ 716,205
6/30/11	149,111	45.15%	797,991
6/30/12	141,753	47.49%	872,419

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

d. ***Other Postemployment Benefits***

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System). For the Town to contribute 100% of the employer's contribution toward health care premiums, the retiree must have completed at least 25 years of creditable service with the Town. To receive 75% of the employer's contribution, the retiree must have completed at least 20 years of creditable service with the Town. To receive 50% of the employer's contribution, the retiree must have completed at least 15 years of creditable service with the Town. Prior to June 30, 2005, employees qualified for full insurance benefits after ten years of creditable service with the Town. The Town pays the cost of coverage for these benefits through private insurers. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. The Town's Board of Aldermen may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2010, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	12	6
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	195	66
Total	207	72

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

d. ***Other Postemployment Benefits (Continued)***

Healthcare Benefits (Continued)

Funding Policy. The Town pays the cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Board of Aldermen. The Town's members pay $999 per month for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 8.5% of annual covered payroll. For the current year, the Town contributed $78,831 or 0.74% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 0.75% and 0.50% of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage in the amount of $13,286. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Board of Aldermen.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

d. ***Other Postemployment Benefits (Continued)***

Healthcare Benefits (Continued)

Annual required contribution	$ 903,727
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	903,727
Contributions made	(105,843)
Increase in net OPEB obligation	797,884
Net OPEB obligation, beginning of year	2,000,054
Net OPEB obligation, end of year	$ 2,797,938

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 745,445	9.5%	$ 1,327,954
2011	775,773	13.3%	2,000,054
2012	903,727	11.7%	2,797,938

Funded Status and Funding Progress. As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was $8,779,756. The covered payroll (annual payroll of active employees covered by the plan) was $10,698,071, and the ratio of the UAAL to the covered payroll was 82.1%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

d. ***Other Postemployment Benefits (Continued)***

Healthcare Benefits (Continued)

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation, and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.5% to 5% annually. Both rates included a 3.00% inflation assumption. The assumed rate of return reflects the fact that no assets are set aside with the Town that are legally held exclusively for retiree health benefits. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010 was 30 years.

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Other Employment Benefits

The Town has elected to provide death benefits to local law enforcement 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 local law enforcement 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 months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed $20,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the state. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2012, the Town made contributions to the state for death benefits of $4,397. The Town's required contributions for employees engaged in law enforcement represented 0.14% of covered payroll. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

4. Deferred/Unearned Revenues

The balance in deferred/unearned revenues in the fund financial statements at year end is comprised of the following elements:

	Deferred Revenues	Unearned Revenues
Taxes receivable	$ 528,968	$ -
Advance rent payments received	-	47,683
Total	$ 528,968	$ 47,683

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

5. 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, illnesses of employees and natural disasters. The Town has general liability, auto and property coverages under a fully insured plan through St. Paul Travelers Insurance Company. The Town's auto liability coverage has limits up to $1,000,000 per occurrence, and the general liability coverage has limits up to $4,000,000 per occurrence, depending on the type of loss. Property coverage is limited up to the total insurance values of the property policy.

The Town is self-funded for workers' compensation insurance. All claims are administered by a third-party administrator. The third-party administrator pays all bills for compensable claims and files documents required by the North Carolina Industrial Commission by personnel licensed to adjust workers' compensation claims in the state of North Carolina. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The estimate of the claims liability also includes other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries from salvage or subrogation, for example, are another component of the claims liability estimate. The Town is insured by Safety National Casualty Corporation for workers compensation claims in excess of $325,000, except for claims occurring within the Police and Fire Departments. The Town is insured for workers' compensation claims which occur within the Police and Fire Departments in excess of $400,000.

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 bonded for $250,000 individually. The remainder of the Town employees is also bonded under a blanket policy for $250,000.

The Town carries flood insurance through St. Paul Travelers Insurance. The Town's flood coverage limit is $1,000,000 with a $25,000 deductible. The Town has one structure, a recycling center, within a FEMA-designated "A" zone (an area close to a river, lake, or stream). The Town elected not to purchase flood coverage for that structure due to the unlikelihood that the structure would be damaged if flooding occurred.

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

5. Risk Management (Continued)

The Town carries commercial coverage for all other risks or losses. 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. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended June 30,	
	2012	2011
Unpaid claims, beginning of fiscal year	$ 293,768	$ 100,000
Incurred claims (including IBNRs)	58,801	403,195
Increase (decrease) in claims reserve	(61,688)	193,768
Claim payments	(146,626)	(403,195)
Unpaid claims, end of fiscal year	$ 144,255	$ 293,768

6. Claims and Judgments

At June 30, 2012, the Town was a defendant to various lawsuits. In the opinion of the Town's management, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

7. Long-Term Obligations

a. Installment Purchase Agreements - Equipment

The Town has entered into agreements to finance certain equipment. The title to the equipment is held in the name of the Town, and security interest in the equipment has been granted to the financing institution. The capital assets have been recorded at the present value of the future minimum installment payments as of the date of their inception.

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

a. Installment Purchase Agreements - Equipment (Continued)

The future minimum installment purchase payments and the net present value of these payments as of June 30, 2012 are as follows:

Fiscal Year Ending June 30,	Governmental	Business-Type
2013	$ 724,307	$ 38,821
2014	597,481	-
2015	511,917	-
2016	283,722	-
Total minimum payments	2,117,427	38,821
Less amount representing interest	91,157	1,200
Present value of installment purchase payments	$ 2,026,270	$ 37,621

b. General Obligation Indebtedness

On May 3, 2004, the Town issued $7,000,000 in general obligation bonds authorized by an order adopted on September 1, 1998, entitled, “Bond Order Authorizing the Issuance of $7,000,000 Street and Sidewalk Bonds of the Town of Kernersville.” A portion of the proceeds from these bonds was used to retire short-term bond anticipation notes in the amount of $5,200,000, which were issued in August 2003 and matured in May 2004.

All general obligation bonds are collateralized by the full faith, credit and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2012 consist of the following individual issues:

-Street Bonds, Series 2004; principal due annually on May 1 beginning May 1, 2005 in increasing installments ranging from $100,000 to $400,000; interest due November 1 and May 1 at rates ranging from 3.0% to 4.6% through May 1, 2024.	$ 4,800,000

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

b. General Obligation Indebtedness (Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2013	$ 400,000	$ 197,400	$ 597,400
2014	400,000	181,400	581,400
2015	400,000	165,400	565,400
2016	400,000	150,800	550,800
2017	400,000	135,800	535,800
Next 5 years	2,000,000	438,000	2,438,000
Next 2 years	800,000	54,800	854,800
	$ 4,800,000	$ 1,323,600	$ 6,123,600

The Town's legal debt margin at June 30, 2012 was $200,911,587.

c. Revolving Loan Payable

On June 3, 2003, the Town was approved for a maximum loan amount of $8,000,000 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Clean Water State Revolving Fund. The loan proceeds were used to assist in the relocation of the Deep River Pump Station, construction of the Twin Creek Pump Station, and construction of new force mains and interceptors ending at the Abbott's Creek Pump Station. The loan is repayable in equal principal repayments of $400,000 plus interest at 2.42% through fiscal year ending 2026. The Town repaid $400,000 during fiscal year ended June 30, 2012. The total amount outstanding at June 30, 2012 was $5,200,000.

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

c. Revolving Loan Payable (Continued)

Annual debt service requirements to maturity for the Revolving Loan Payable are as follows:

Fiscal Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2013	$ 400,000	$ 125,840	$ 525,840
2014	400,000	116,160	516,160
2015	400,000	106,480	506,480
2016	400,000	96,800	496,800
2017	400,000	87,120	487,120
Next 5 years	2,000,000	290,400	2,290,400
Next 3 years	1,200,000	58,080	1,258,080
	$ 5,200,000	$ 880,880	$ 6,080,880

d. Changes in Long-Term Obligations

During the year ended June 30, 2012, the following changes occurred in long-term obligations:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion of Balance
Governmental activities:					
General obligation bonds	$ 5,200,000	$ -	$ (400,000)	$ 4,800,000	$ 400,000
Revolving loan payable	5,600,000	-	(400,000)	5,200,000	400,000
Installment purchases	1,708,517	1,383,000	(1,065,247)	2,026,270	724,307
Compensated absences	694,476	1,395,096	(768,824)	1,320,748	768,824
Net pension obligation	797,991	141,753	(67,325)	872,419	-
Net OPEB obligation	2,000,054	903,727	(105,843)	2,797,938	-
	$ 16,001,038	$ 3,823,576	$ (2,807,239)	$ 17,017,375	$ 2,293,131

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion of Balance
Business-type activities:					
Installment purchases	$ 74,079	$ -	$ (36,458)	$ 37,621	$ 37,621
Compensated absences	11,169	22,723	(15,899)	17,993	17,096
	$ 85,248	$ 22,723	$ (52,357)	$ 55,614	$ 54,717

Compensated absences, net pension obligation, and net OPEB obligation have typically been liquidated in the General Fund.

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Commitments

The Town has agreed to contribute annually toward the cost of construction, maintenance and operation of a community pool adjacent to the YMCA facilities. The Town's expense for the fiscal year ended June 30, 2012 amounted to $60,000. The Town includes the obligation in its budget ordinance for each year during the term. The Town's contribution schedule subsequent to June 30, 2012 is as follows:

Fiscal Year Ending June 30,	Amount
2013	$ 60,000
2014	60,000
2015	10,000
Total	$ 130,000

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2012 consist of the following:

From the General Fund to the Enterprise Fund for storm water fees.	$ 212,332
From the General Fund to the Nonmajor Governmental Funds for (1) a $30,000 transfer to Contributions Fund for capital outlays, and (2) a $338,806 transfer to Kerner Mill Greenway Capital Projects Ordinance Fund for capital project expenditures.	368,806
From the Enterprise Fund to the General Fund for a final reimbursement for reimbursement of expenses.	314,932
From the Nonmajor Governmental Funds to the General Fund for (1) a $35,000 transfer from Occupancy Tax Fund to provide working capital, (2) a $1,295,749 transfer from Transportation Capital Projects Ordinance Fund to close the fund, and (3) a $34,667 transfer from Kerner Mill Greenway Capital Projects Ordinance Fund to provide working capital.	1,365,416
From the Enterprise Fund to the General Fund to transfer capital assets.	74,730
	$ 2,336,216

Note 2. Detail Notes on All Funds (Continued)

D.	Total fund balance - General Fund	$ 9,699,392
	Less:	
	Prepaid assets	14,490
	Stabilization by state statute	2,440,785
	Capital equipment	499,061
	Capital projects	625,097
	Appropriated fund balance in 2012 budget	500,654
	Working capital / fund balance policy	5,287,508
	Remaining fund balance	331,797

Note 3. Reconciliation of GAAP and Budget Basis Expenditures

The accompanying schedule reconciles certain General Fund transactions which are treated differently on Exhibit 4 (GAAP basis) and Exhibit 6 (budgetary basis). These differences relate to installment purchase transactions and the water/sewer bond indebtedness and are summarized below:

	Exhibit 4	Increase (Decrease)		Exhibit 6
General government	$ 4,462,355	$ 42,805	(1)	$ 4,505,160
Public safety	11,217,203	649,362	(1)	11,866,565
Public service	6,420,607	332,831	(1)	6,753,438
Culture and recreation	1,241,363	51,902	(1)	1,293,265
Debt service	-	1,148,920	(1)	1,148,920
Principal retirement	1,824,519	(1,824,519)	(1)	-
Interest and fiscal charges	401,301	(401,301)	(1)	-

(1) *Reclassification of installment purchase and note payments.*

Note 4. Jointly Governed Organizations

The Town, in conjunction with six counties and 25 other municipalities, established the Piedmont Triad Partnership. The participating governments established the Partnership to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Partnership's governing board. The Town paid membership fees of $3,780 to the Partnership during the fiscal year ended June 30, 2012.

The Town, along with two other municipalities, is also a participating member of the Forsyth Municipal ABC Board. This organization was established under North Carolina Alcoholic Beverage laws to operate ten liquor stores. The Town of Kernersville appoints one member to a five-member governing board. The Town also receives a portion of the income distributed by the Board. This distribution amounted to $252,516 during the fiscal year ended June 30, 2012.

Note 5. Summary Disclosure of Significant Contingencies

Federal- and State-Assisted Programs

The Town has received proceeds from several 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 monies 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 monies.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

This section contains additional information required by generally accepted accounting principles.

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Required Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Funding Progress for the Other Postemployment Benefits.
- Schedule of Employer Contributions for the Other Postemployment Benefits.
- Notes to the Required Schedules for the Other Postemployment Benefits.

TOWN OF KERNERSVILLE, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Exhibit A-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) ÷ (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) - (a)) ÷ (c)
12/31/02	$ -	$ 514,753	$ 514,753	0.00%	$ 1,828,264	28.16%
12/31/03	-	552,438	552,438	0.00%	1,972,702	28.00%
12/31/04	-	582,404	582,404	0.00%	2,181,145	26.70%
12/31/05	-	610,665	610,665	0.00%	2,325,132	26.26%
12/31/06	-	672,174	672,174	0.00%	2,511,904	26.76%
12/31/07	-	791,713	791,713	0.00%	2,646,994	29.91%
12/31/08	-	895,407	895,407	0.00%	2,962,535	30.22%
12/31/09	-	1,424,440	1,424,440	0.00%	2,988,346	47.67%
12/31/10	-	1,397,452	1,397,452	0.00%	2,962,131	47.18%
12/31/11	-	1,517,681	1,517,681	0.00%	3,048,252	49.79%

TOWN OF KERNERSVILLE, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REQUIRED EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Annual Percentage Contributed
2003	$ 55,309	15.92%
2004	62,023	15.02%
2005	68,530	13.60%
2006	75,105	12.41%
2007	75,595	12.33%
2008	82,574	11.28%
2009	93,216	11.95%
2010	107,700	45.54%
2011	151,644	44.40%
2012	149,457	45.05%

NOTES TO THE REQUIRED SCHEDULES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	19 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return *	5.00%
Projected salary increases *	4.25% - 7.85%
* Includes inflation at:	3.00%
Cost of living adjustments	N/A

TOWN OF KERNERSVILLE, NORTH CAROLINA
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Exhibit B-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) ÷ (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) - (a)) ÷ (c)
12/31/08	$ -	$ 6,541,154	$ 6,541,154	0.00%	$ 9,923,760	65.91%
12/31/10	-	8,779,756	8,779,756	0.00%	10,698,071	82.07%

TOWN OF KERNERSVILLE, NORTH CAROLINA
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Annual Percentage Contributed
2010	$ 745,445	9.50%
2011	775,773	13.30%
2012	903,727	8.70%

NOTES TO THE REQUIRED SCHEDULES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return *	4.00%
Medical cost trend	10.50%-5.00%
* Includes inflation at:	3.00%
Cost of living adjustments	N/A

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SUPPLEMENTARY INFORMATION:

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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NONMAJOR GOVERNMENTAL FUNDS

OCCUPANCY TAX FUND - accounts for the revenue generated by the tax charged on hotel and motel rooms to be used to promote travel and tourism, and tourism-related expenditures.

EMERGENCY TELEPHONE SYSTEM FUND - accounts for 911 system subscriber fees and levies as provided for in North Carolina General Statute (NCGS) 159-26(b)(2). Under NCGS Chapter 62A, the Town of Kernersville imposes a monthly service charge to cover the cost of administering an enhanced 911 emergency telecommunications wire line system.

CONTRIBUTIONS FUND - accounts for donations used to support drug education programs.

LAW ENFORCEMENT FORFEITURES FUND - accounts for restricted proceeds resulting from the sale of properties seized in criminal investigations.

FEDERAL JUSTICE ASSISTANCE GRANT FUND - accounts for revenues and expenditures associated with activities of federal justice assistance grants.

TRANSPORTATION CAPITAL PROJECTS ORDINANCE FUND - accounts for the financial resources to be used for various major street construction and improvement projects.

PUBLIC WORKS FACILITY CAPITAL PROJECTS ORDINANCE FUND - accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the new public works facility.

KERNER MILL GREENWAY CAPITAL PROJECTS ORDINANCE FUND - accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the Kerner Mill Greenway.

TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

	2012		
	Budget	Actual	Variance Positive (Negative)
Revenues:			
General revenues:			
Ad valorem taxes:			
Current	$ 12,369,548	$ 12,437,199	$ 67,651
Prior	150,000	250,551	100,551
	12,519,548	12,687,750	168,202
Other taxes and licenses:			
Local vehicle fees tax	90,287	100,969	10,682
Cablevision fees	45,000	51,227	6,227
	135,287	152,196	16,909
Unrestricted intergovernmental:			
Solid waste disposal tax	18,500	15,840	(2,660)
Utility franchise	844,826	866,630	21,804
Telecommunications tax	275,116	271,941	(3,175)
Alcohol beverage tax	279,433	353,031	73,598
Hold harmless distribution	700,000	681,997	(18,003)
Local option sales and use tax	3,673,156	3,726,298	53,142
Rental vehicle fees	21,150	26,129	4,979
Video programming	265,000	258,574	(6,426)
	6,077,181	6,200,440	123,259
Restricted intergovernmental:			
Powell Bill	600,617	611,558	10,941
Governor's Crime Commission Grant	84,843	120,563	35,720
State Department of Pollution Grant	39,212	29,648	(9,564)
State Transportation grants	1,370,556	273,976	(1,096,580)
Local grants	740,980	684,301	(56,679)
Homeland Security Grant	63,085	51,035	(12,050)
	2,899,293	1,771,081	(1,128,212)
Penalties and interest:			
Penalties and interest	55,000	19,038	(35,962)
Interest on investments	35,800	14,238	(21,562)
	90,800	33,276	(57,524)
Contributions and donations	1,069,380	889,458	(179,922)
Other general revenues:			
Other	93,170	96,956	3,786
Total general revenues	22,884,659	21,831,157	(1,053,502)

TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

	2012		
	Budget	Actual	Variance Positive (Negative)
Functionally related revenues:			
Use and rental fees:			
Recreation revenue	$ 220,000	$ 189,062	$ (30,938)
Parking fines	1,000	214	(786)
Court facility fees	21,000	14,455	(6,545)
Rent on town property	303,793	305,714	1,921
Building inspections	145,000	156,323	11,323
Zoning fees	22,000	23,728	1,728
Recycling revenue	210,250	207,946	(2,304)
Street lighting reimbursements	5,364	5,364	-
Commercial industrial collection fees	755,220	698,757	(56,463)
Other functionally related fees	426,469	452,743	26,274
Total functionally related revenues	2,110,096	2,054,306	(55,790)
Total revenues	24,994,755	23,885,463	(1,109,292)
Expenditures:			
Current:			
General government:			
Governing body:			
Personnel services		30,747	
Other services and charges		488,793	
Elections		12,391	
Capital outlay		1,044,894	
	1,635,246	1,576,825	58,421
Administrative:			
Personnel services		259,377	
Other services and charges		23,334	
	294,629	282,711	11,918
Finance:			
Personnel services		366,485	
Other services and charges		269,897	
Capital outlay		5,716	
Installment purchase agreement payments		32,428	
	736,868	674,526	62,342
Information technology:			
Personnel services		228,358	
Other services and charges		116,932	
Installment purchase agreement payments		43,121	
	393,309	388,411	4,898

TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

	2012		
	Budget	Actual	Variance Positive (Negative)
Planning and zoning:			
Personnel services	$	$ 305,607	$
Other services and charges		28,904	
	345,492	334,511	10,981
Personnel:			
Personnel services		445,293	
Other services and charges		102,586	
Capital outlay		13,010	
	589,519	560,889	28,630
General services:			
Personnel services		139,543	
Other services and charges		528,970	
Installment purchase agreement payments		18,774	
	800,916	687,287	113,629
Total general government	4,795,979	4,505,160	290,819
Public safety:			
Police department:			
Personnel services		5,326,507	
Other services and charges		562,169	
Capital outlay		217,961	
Installment purchase agreement payments		439,586	
	6,874,621	6,546,223	328,398
Fire department:			
Personnel services		4,090,284	
Other services and charges		479,747	
Capital outlay		193,325	
Installment purchase agreement payments		205,699	
	5,191,760	4,969,055	222,705
Inspections:			
Personnel services		325,805	
Other services and charges		21,931	
Installment purchase agreement payments		3,551	
	358,094	351,287	6,807
Total public safety	12,424,475	11,866,565	557,910

TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

	2012		
	Budget	Actual	Variance Positive (Negative)
Public service:			
Engineering department:			
Personnel services	$	$ 183,556	$
Other services and charges		720,119	
Installment purchase agreement payments		5,663	
	1,162,608	909,338	253,270
Street department:			
Personnel services		725,423	
Other services and charges		634,154	
Other street and sidewalk improvements		12,557	
Capital outlay		664	
Installment purchase agreement payments		44,768	
	1,502,170	1,417,566	84,604
Transportation department:			
Personnel services		276,745	
Other services and charges		222,438	
Capital outlay		21,060	
Installment purchase agreement payments		60,000	
	2,155,195	580,243	1,574,952
Sanitation department:			
Personnel services		956,933	
Other services and charges		667,367	
Capital outlay		325,292	
Installment purchase agreement payments		213,233	
	2,264,003	2,162,825	101,178
Public works administration:			
Personnel services		285,961	
Other services and charges		24,229	
	313,797	310,190	3,607
Central maintenance:			
Personnel services		440,633	
Other services and charges		923,614	
Installment purchase agreement payments		9,029	
	1,415,099	1,373,276	41,823
Total public service	8,812,872	6,753,438	2,059,434

TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

	2012		
	Budget	Actual	Variance Positive (Negative)
Culture and recreation:			
Recreation department:			
Personnel services	$	$ 608,992	$
Other services and charges		539,636	
Capital outlay		31,869	
Installment purchase agreement payments		51,878	
	1,330,318	1,232,375	97,943
Paddison Library:			
Other services and charges		60,890	
	63,827	60,890	2,937
Total culture and recreation	1,394,145	1,293,265	100,880
Debt service:			
Principal retirement	800,000	800,000	-
Interest and fiscal charges	348,920	348,920	-
Total debt service	1,148,920	1,148,920	-
Total expenditures	28,576,391	25,567,348	3,009,043
Excess of revenues under expenditures	(3,581,636)	(1,681,885)	1,899,751
Other financing sources (uses):			
Transfers in (out):			
From Occupancy Tax Fund	35,000	35,000	-
From Transportation Capital Projects Ordinance Fund	1,210,135	1,295,749	85,614
From Storm Water	315,835	314,932	(903)
From Kerner Mill Greenway Capital Projects Ordinance Fund	34,667	34,667	-
To Contributions Fund	(30,000)	(30,000)	-
To Stormwater Fund	(212,332)	(212,332)	-
To Kerner Mill Greenway Capital Projects Ordinance Fund	(338,806)	(338,806)	-
To Capital Reserve Fund	(534,514)	(477,050)	57,464
Installment purchase financing proceeds	1,185,500	1,185,500	-
Total other financing uses	1,665,485	1,807,660	142,175
Excess of revenues and other sources over (under) expenditures and other uses	(1,916,151)	125,775	2,041,926
Appropriated fund balance	1,916,151	-	(1,916,151)
Excess of revenues, other sources and appropriated fund balance over expenditures and other uses	$ -	125,775	$ 125,775
Fund balance, beginning		8,948,520	
Fund balance, ending		$ 9,074,295	

Schedule 2

TOWN OF KERNERSVILLE, NORTH CAROLINA
CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues:				
Investment earnings	$ 200	$ 73	$ 114	$ 41
Expenditures:				
Capital reserve expenditures	477,050	534,587	-	534,587
Excess of revenues over (under) expenditures	(476,850)	(534,514)	114	534,628
Other financing sources:				
Transfers in:				
General Fund	476,850	534,514	477,050	(57,464)
Excess of revenues over expenditures and other sources	$ -	$ -	477,164	$ 477,164
Fund balance, July 1			147,933	
Fund balance, June 30			$ 625,097	

TOWN OF KERNERSVILLE, NORTH CAROLINA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

Schedule 3

	Nonmajor Special Revenue Funds		
ASSETS	**Occupancy Tax Fund**	**Emergency Telephone System Fund**	**Contributions Fund**
Cash and investments	$ 42,625	$ 90,677	$ 46,474
Restricted cash	-	1,113	-
Accounts receivable	8,713	-	-
Total assets	$ 51,338	$ 91,790	$ 46,474
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ -	$ 33	$ 22
Due to other funds	-	-	-
Total liabilities	-	33	22
Fund balances:			
Restricted			
Stabilization by state statute	8,713	1,113	-
Tourism	27,557	-	-
Public safety	-	39,947	-
Drug education	-	-	43,902
Committed			
Capital projects	-	-	-
Assigned			
Subsequent year's expenditures	15,068	50,697	2,550
Total fund balances	51,338	91,757	46,452
Total liabilities and fund balances	$ 51,338	$ 91,790	$ 46,474

Nonmajor Special Revenue Funds		Nonmajor Capital Project Funds			
Law Enforcement Forfeitures Fund	Federal Justice Assistance Grant Fund	Transportation Capital Projects Ordinance Fund	Public Works Facility Capital Projects Ordinance Fund	Kerner Mill Greenway Capital Projects Ordinance Fund	Total Nonmajor Governmental Funds
$ 348,555	$ 587	$ -	$ 555,423	$ 251,571	$ 1,335,912
-	-	-	-	-	1,113
-	-	-	-	-	8,713
$ 348,555	$ 587	$ -	$ 555,423	$ 251,571	$ 1,345,738
$ -	$ -	$ -	$ -	$ 8,189	$ 8,244
-	-	-	-	-	-
-	-	-	-	8,189	8,244
-	-	-	-	-	9,826
-	-	-	-	-	27,557
79,228	-	-	-	-	119,175
-	-	-	-	-	43,902
-	-	-	555,423	243,382	798,805
269,327	587	-	-	-	338,229
348,555	587	-	555,423	243,382	1,337,494
$ 348,555	$ 587	$ -	$ 555,423	$ 251,571	$ 1,345,738

TOWN OF KERNERSVILLE, NORTH CAROLINA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2012

Schedule 4

	Nonmajor Special Revenue Funds		
	Occupancy Tax Fund	Emergency Telephone System Fund	Contributions Fund
Revenues:			
Other taxes and licenses	$ 94,641	$ -	$ -
Restricted intergovernmental	-	-	-
Investment earnings	36	4	2
Miscellaneous	-	64,000	55,736
Total revenues	94,677	64,004	55,738
Expenditures:			
Public safety	-	261,106	79,169
Public service	-	-	-
Culture and recreation	49,500	-	-
Debt service:			
Principal	-	40,728	-
Interest and other charges	-	-	-
Total expenditures	49,500	301,834	79,169
Excess of revenues over (under) expenditures	45,177	(237,830)	(23,431)
Other financing sources (uses):			
Transfers in:			
General Fund	-	-	30,000
Transfers out:			
General Fund	(35,000)	-	-
Installment purchase financing proceeds	-	197,500	-
Total other financing sources (uses)	(35,000)	197,500	30,000
Excess of revenues and other sources over (under) expenditures and other uses	10,177	(40,330)	6,569
Fund balances:			
Beginning of year, July 1	41,161	132,087	39,883
End of year, June 30	$ 51,338	$ 91,757	$ 46,452

Nonmajor Special Revenue Funds		Nonmajor Capital Project Funds			
Law Enforcement Forfeitures Fund	Federal Justice Assistance Grant Fund	Transportation Capital Projects Ordinance Fund	Public Works Facility Capital Projects Ordinance Fund	Kerner Mill Greenway Capital Projects Ordinance Fund	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ 94,641
149,371	6,000	-	-	-	155,371
8	-	1,618	289	9	1,966
-	-	-	-	-	119,736
149,379	6,000	1,618	289	9	371,714
49,345	6,792	-	-	-	396,412
-	-	-	2,400	-	2,400
-	-	-	-	60,766	110,266
-	-	-	-	-	40,728
-	-	-	-	-	-
49,345	6,792	-	2,400	60,766	549,806
100,034	(792)	1,618	(2,111)	(60,757)	(178,092)
-	-	-	-	338,806	368,806
-	-	(1,295,749)	-	(34,667)	(1,365,416)
-	-	-	-	-	197,500
-	-	(1,295,749)	-	304,139	(799,110)
100,034	(792)	(1,294,131)	(2,111)	243,382	(977,202)
248,521	1,379	1,294,131	557,534	-	2,314,696
$ 348,555	$ 587	$ -	$ 555,423	$ 243,382	$ 1,337,494

TOWN OF KERNERSVILLE, NORTH CAROLINA
OCCUPANCY TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

Schedule 5

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues:				
Other taxes and licenses:				
Occupancy tax	$	$	$ 94,641	$
Investment earnings			36	
Total revenues	84,500	84,500	94,677	10,177
Expenditures:				
Culture and recreation	49,500	49,500	49,500	-
Excess of revenues over expenditures	35,000	35,000	45,177	10,177
Other financing uses:				
Transfers out:				
General Fund	(35,000)	(35,000)	(35,000)	-
Excess of revenues over expenditures and other uses	$ -	$ -	10,177	$ 10,177
Fund balance, July 1			41,161	
Fund balance, June 30			$ 51,338	

TOWN OF KERNERSVILLE, NORTH CAROLINA
EMERGENCY TELEPHONE SYSTEM FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

Schedule 6

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues:				
Investment earnings	$	$	$ 4	$
Other general revenues			64,000	
Total revenues	64,000	64,000	64,004	4
Expenditures:				
Public safety:				
Other services and charges			64,719	
Debt service:				
Principal retirement			40,728	
Interest and fiscal charges			-	
Total expenditures	109,823	307,323	301,834	5,489
Excess of revenues under expenditures	(45,823)	(243,323)	(237,830)	5,493
Other financing sources:				
Installment purchase financing proceeds	-	197,500	197,500	-
Total other financing sources	-	197,500	197,500	-
Excess of revenues and other sources under expenditures	(45,823)	(45,823)	(40,330)	5,493
Appropriated fund balance	45,823	45,823	-	(45,823)
Excess of revenues, other sources and appropriated fund balance under expenditures	$ -	$ -	(40,330)	$ (40,330)
Fund balance, July 1			132,087	
Fund balance, June 30			$ 91,757	

TOWN OF KERNERSVILLE, NORTH CAROLINA
CONTRIBUTIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

Schedule 7

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues:				
Investment earnings	$	$	$ 2	$
Miscellaneous:				
Other receipts			55,736	
Total revenues	4,250	54,800	55,738	938
Expenditures:				
Public safety			79,169	
Total expenditures	6,250	86,800	79,169	7,631
Excess of revenues under expenditures	(2,000)	(32,000)	(23,431)	8,569
Other financing sources:				
Transfers in:				
From General Fund			30,000	
Total other financing sources	-	30,000	30,000	-
Excess of revenues and other sources over (under) expenditures	(2,000)	(2,000)	6,569	8,569
Appropriated fund balance	2,000	2,000	-	(2,000)
Excess of revenues and appropriated fund balance over expenditures	$ -	$ -	6,569	$ 6,569
Fund balance, July 1			39,883	
Fund balance, June 30			$ 46,452	

TOWN OF KERNERSVILLE, NORTH CAROLINA
LAW ENFORCEMENT FORFEITURES FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

Schedule 8

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues:				
Restricted intergovernmental	$	$	$ 149,371	$
Investment earnings			8	
Total revenues	150	139,909	149,379	9,470
Expenditures:				
Public safety			49,345	
Total expenditures	70,377	176,883	49,345	127,538
Excess of revenues over (under) expenditures	(70,227)	(36,974)	100,034	137,008
Other financing uses				
Transfers out:				
To General Fund	-	-	-	-
Excess of revenues and other uses over (under) expenditures	(70,227)	(36,974)	100,034	137,008
Appropriated fund balance	70,227	36,974	-	(36,974)
Excess of revenues and appropriated fund balance over expenditures and other uses	$ -	$ -	100,034	$ 100,034
Fund balance, July 1			248,521	
Fund balance, June 30			$ 348,555	

Schedule 9

TOWN OF KERNERSVILLE, NORTH CAROLINA
FEDERAL JUSTICE ASSISTANCE GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues:				
Restricted intergovernmental	$	$	$ 6,000	$
Total revenues	-	11,001	6,000	(5,001)
Expenditures:				
Public safety			6,792	
Capital outlay			-	
Total expenditures	1,400	12,401	6,792	5,609
Excess of revenues under expenditures	(1,400)	(1,400)	(792)	608
Appropriated fund balance	1,400	1,400	-	(1,400)
Excess of revenues and appropriated fund balance under expenditures	$ -	$ -	(792)	$ (792)
Fund balance, July 1			1,379	
Fund balance, June 30			$ 587	

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - PROJECT AUTHORIZATION AND ACTUAL - TRANSPORTATION CAPITAL PROJECTS ORDINANCE FUND
From Inception and for the Year Ended June 30, 2012

Schedule 10

	Project Authorization	Actual: Prior Years	Actual: Current Year	Actual: Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental	$ 9,120,382	$ 5,089,621	$ -	$ 5,089,621	$ (4,030,761)
Other general revenues:					
Interest on investments	658,700	604,485	1,618	606,103	(52,597)
Capital contributions from developers	-	557,156	-	557,156	557,156
Other receipts	1,332,483	452,366	-	452,366	(880,117)
Total revenues	11,111,565	6,703,628	1,618	6,705,246	(4,406,319)
Expenditures:					
Public service:					
Street department:					
Other services and charges		5,185,395	-	5,185,395	
Other improvements		2,104,217	-	2,104,217	
Capital Improvements		9,797,274	-	9,797,274	
Debt service:					
Principal retirement		2,685,085	-	2,685,085	
Interest and fiscal charges		2,100,766	-	2,100,766	
Total expenditures	27,574,805	21,872,737	-	21,872,737	5,702,068
Excess of revenues over (under) expenditures	(16,463,240)	(15,169,109)	1,618	(15,167,491)	1,295,749
Other financing sources (uses):					
Transfers in:					
General Fund	10,403,982	10,403,982	-	10,403,982	-
Transfers out:					
General Fund	(2,150,877)	(940,742)	(1,295,749)	(2,236,491)	(85,614)
Proceeds from bonds	7,000,000	7,000,000	-	7,000,000	-
Total other financing sources	15,253,105	16,463,240	(1,295,749)	15,167,491	(85,614)
Excess of revenues and other sources over (under) expenditures	(1,210,135)	1,294,131	(1,294,131)	-	1,210,135
Appropriated fund balance	1,210,135	-	-	-	(1,210,135)
Excess of revenues, other sources appropriated fund balance over (under) expenditures and other uses	$ -	$ 1,294,131	(1,294,131)	$ -	$ -
Fund balance, beginning			1,294,131		
Fund balance, ending			$ -		

TOWN OF KERNERSVILLE, NORTH CAROLINA **Schedule 11**

CAPITAL PROJECTS FUNDS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN

FUND BALANCE - PROJECT AUTHORIZATION AND ACTUAL - PUBLIC WORKS

FACILITY CAPITAL PROJECTS ORDINANCE FUND

From Inception and for the Year Ended June 30, 2012

		Actual			Variance
	Project Authorization	Prior Years	Current Year	Total to Date	Positive (Negative)
Revenues:					
Other general revenues:					
Interest on investments	$ 27,076	$ 26,576	$ 289	$ 26,865	$ (211)
Total revenues	27,076	26,576	289	26,865	(211)
Expenditures:					
Public service:					
Capital development					
Other services and charges	449,057	441,368	2,400	443,768	5,289
Total public services	449,057	441,368	2,400	443,768	5,289
Culture and recreation:					
Capital development					
Capital outlay	550,345	-	-	-	550,345
Total culture and recreation	550,345	-	-	-	550,345
Total expenditures	999,402	441,368	2,400	443,768	555,634
Excess of revenues under expenditures	(972,326)	(414,792)	(2,111)	(416,903)	555,423
Other financing sources:					
Transfers in:					
General Fund	567,326	567,326	-	567,326	-
Stormwater Fund	405,000	405,000	-	405,000	-
Total other financing sources	972,326	972,326	-	972,326	-
Excess of revenues and other sources over expenditures	$ -	$ 557,534	(2,111)	$ 555,423	$ 555,423
Fund balance, July 1			557,534		
Fund balance, June 30			$ 555,423		

Schedule 12

TOWN OF KERNERSVILLE, NORTH CAROLINA
CAPITAL PROJECTS FUNDS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - PROJECT AUTHORIZATION AND ACTUAL - KERNER MILL GREENWAY CAPITAL PROJECTS ORDINANCE FUND
From Inception and for the Year Ended June 30, 2012

	Project Authorization	Actual: Prior Years	Actual: Current Year	Actual: Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental revenues:					
State grants	$ -	$ -	$ -	$ -	$ -
Federal grants	1,290,000	-	-	-	(1,290,000)
	1,290,000	-	-	-	(1,290,000)
Other general revenues:					
Interest on investments	-	-	9	9	9
Total revenues	1,290,000	-	9	9	(1,289,991)
Expenditures:					
Culture and recreation:					
Capital development					
Other services and charges	145,900	-	60,766	60,766	85,134
Capital outlay	1,378,906		-	-	1,378,906
Total culture and recreation	1,524,806	-	60,766	60,766	1,464,040
Total expenditures	1,524,806	-	60,766	60,766	1,464,040
Excess of revenues under expenditures	(234,806)	-	(60,757)	(60,757)	174,049
Other financing sources:					
Transfers in:					
General Fund	338,806	-	338,806	338,806	-
Transfers out:					
General Fund	(104,000)	-	(34,667)	(34,667)	69,333
Total other financing sources	234,806	-	304,139	304,139	69,333
Excess of revenues and other sources over expenditures	$ -	$ -	243,382	$ 243,382	$ 243,382
Fund balance, July 1			-		
Fund balance, June 30			$ 243,382		

TOWN OF KERNERSVILLE, NORTH CAROLINA **Schedule 13**

STORMWATER ENTERPRISE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year Ended June 30, 2012

	2012		
	Budget	**Actual**	**Variance Positive (Negative)**
Revenues:			
Fees and charges	$	$ 1,006,712	$
Investment earnings		222	
Total revenues	964,850	1,006,934	42,084
Expenditures:			
Storm water:			
Personnel services		332,467	
Other services and charges		287,188	
Debt service payments		38,821	
Total expenditures	1,253,457	658,476	594,981
Revenues over (under) expenditures	(288,607)	348,458	637,065
Other financing sources (uses):			
Transfers in from other funds		212,332	
Transfers out to other funds		(389,662)	
Total other financing uses	(103,503)	(177,330)	(73,827)
Excess of revenues and other uses over (under) expenditures	(392,110)	171,128	563,238
Appropriated fund balance	392,110	-	(392,110)
Excess of revenues and appropriated fund balance over expenditures and other uses	$ -	171,128	$ 171,128
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Debt principal		36,458	
Depreciation		(37,406)	
Total reconciling items		(948)	
Change in net assets		$ 170,180	

Schedule 14

TOWN OF KERNERSVILLE, NORTH CAROLINA
WORKERS' COMP SELF-INSURANCE FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - FINANCIAL PLAN AND ACTUAL
Year Ended June 30, 2012

	2012		
	Financial Plan	Actual	Variance Positive (Negative)
Operating revenues:			
Charges for services	$ 196,870	$ 196,870	$ -
Operating expenses:			
Claims		146,626	
Stop-loss coverage		27,276	
Administration		7,500	
Total operating expenses	197,070	181,402	15,668
Operating income (loss)	(200)	15,468	15,668
Nonoperating revenues:			
Investment earnings	200	81	(119)
Change in net assets	$ -	15,549	$ 15,549
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Reduction of claims reserve		149,513	
Change in net assets		$ 165,062	

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SUPPLEMENTARY INFORMATION:

OTHER SCHEDULES

This section contains additional information on property taxes.

- **Schedule of Ad Valorem Taxes Receivable**
- **Analysis of Current Tax Levy**

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TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2012

Fiscal Year	Uncollected Balance July 1, 2011	Additions	Collections and Credits	Uncollected Balance June 30, 2012
2011-12	$ -	$ 13,048,827	$ 12,755,708	$ 293,119
2010-11	335,201	-	215,368	119,833
2009-10	119,541	-	47,948	71,593
2008-09	73,392	-	14,919	58,473
2007-08	38,624	-	28,109	10,515
2006-07	8,724	-	1,705	7,019
2005-06	12,105	-	1,568	10,537
2004-05	9,615	-	1,118	8,497
2003-04	12,376	-	25	12,351
2002-03	10,039	-	8	10,031
2001-02	8,429	-	8,429	-
	$ 628,046	$ 13,048,827	$ 13,074,905	601,968
Less allowance for uncollectible accounts:				
General Fund				(73,000)
				$ 528,968

Reconciliation of Collections and Credits with Revenues:

Taxes - Ad Valorem - General Fund	$ 12,687,750
Vehicle fees - General Fund	100,969
Recycling revenue - General Fund	207,946
Refunds	42,801
Releases	27,010
Amounts written off for tax year 2001-2002 per statute of limitations	8,429
	$ 13,074,905

TOWN OF KERNERSVILLE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2012

Schedule 16

	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	$ 2,510,487,236	$ 0.4975	$ 12,489,674	$ 11,626,318	$ 863,356
Discoveries:					
Current year taxes	60,907,604	0.4975	303,015	252,698	50,317
Total gross levy	-		12,792,689	11,879,016	913,673
Recycling fees	-		206,550	206,550	-
Vehicle tag fees	-		101,835	-	101,835
Total property valuation	$ 2,571,394,840				
Total levy			13,101,074	12,085,566	1,015,508
Less releases			52,247	50,789	1,458
Net levy			13,048,827	12,034,777	1,014,050
Uncollected taxes at June 30, 2012			293,119	279,813	13,306
Current year's taxes collected			$ 12,755,708	$ 11,754,964	$ 1,000,744
Current levy collection percentage			97.75%	97.67%	98.69%

SUPPLEMENTARY INFORMATION:

STATISTICAL SECTION

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STATISTICAL SECTION

This part of the Town of Kernersville's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the Town's overall financial health.

CONTENTS **PAGE**

FINANCIAL TRENDS INFORMATION - these schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time. **98**

REVENUE CAPACITY INFORMATION - these schedules contain information to help the reader assess the Town's most significant local revenue sources, property taxes and water and sewer charges. **103**

DEBT CAPACITY INFORMATION - these schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future. **108**

DEMOGRAPHIC AND ECONOMIC INFORMATION - these schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place. **112**

OPERATING INFORMATION - these schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs. **115**

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Town implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.*

Table 1

TOWN OF KERNERSVILLE, NORTH CAROLINA
NET ASSETS BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	$ 106,430,925	$ 105,708,231	$ 111,007,303	$ 113,593,853	$ 118,273,491	$ 124,714,812	$ 124,490,834	$ 123,530,664	$ 124,206,117	$ 122,184,493
Restricted	-	-	-	-	-	-	-	-	1,687,385	2,450,611
Unrestricted	8,147,555	7,281,128	3,050,839	3,777,736	4,041,505	6,243,831	4,638,537	3,231,105	1,293,180	(1,300,310)
Total governmental activities net assets	$ 114,578,480	$ 112,989,359	$ 114,058,142	$ 117,371,589	$ 122,314,996	$ 130,958,643	$ 129,129,371	$ 126,761,769	$ 127,186,682	$ 123,334,794
Business-type activities										
Invested in capital assets, net of related debt	$ -	$ -	$ -	$ -	$ 213,400	$ 238,677	$ 330,429	$ 321,492	$ 304,776	$ 229,098
Unrestricted	-	-	-	-	158,751	546,588	494,794	435,601	503,485	749,343
Total primary government net assets	$ -	$ -	$ -	$ -	$ 372,151	$ 785,265	$ 825,223	$ 757,093	$ 808,261	$ 978,441
Primary government										
Invested in capital assets, net of related debt	$ 106,430,925	$ 105,708,231	$ 111,007,303	$ 113,593,853	$ 118,486,891	$ 124,953,489	$ 124,821,263	$ 123,852,156	$ 124,510,893	$ 122,413,591
Restricted	-	-	-	-	-	-	-	-	1,687,385	2,450,611
Unrestricted	8,147,555	7,281,128	3,050,839	3,777,736	4,200,256	6,790,419	5,133,331	3,666,706	1,796,665	(550,967)
Total primary government net assets	$ 114,578,480	$ 112,989,359	$ 114,058,142	$ 117,371,589	$ 122,687,147	$ 131,743,908	$ 129,954,594	$ 127,518,862	$ 127,994,943	$ 124,313,235

Source: Statement of Net Assets (Exhibit 1 in Basic Financial Statements)

TOWN OF KERNERSVILLE, NORTH CAROLINA
CHANGES IN NET ASSETS
Last Ten Fiscal Years
(accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	$ 2,095,130	$ 2,041,968	$ 2,172,639	$ 2,220,028	$ 3,981,548	$ 2,651,806	$ 2,892,008	$ 2,956,581	$ 2,851,088	$ 4,139,013
Public safety	7,171,007	7,722,329	8,090,971	10,309,964	8,461,213	10,108,426	11,232,997	12,362,244	11,892,407	12,774,638
Public services	5,888,362	12,029,947	10,331,601	9,982,340	6,102,388	8,748,345	10,566,004	8,460,438	8,420,247	8,087,763
Culture and recreation	840,331	958,922	952,068	1,122,586	1,277,981	1,224,228	1,288,066	1,306,327	1,455,623	1,544,984
Interest on long-term debt	267,353	422,413	472,930	707,314	691,913	620,311	584,278	494,302	448,776	396,651
Total governmental activities expenses	16,262,183	23,175,579	22,020,209	24,342,232	20,515,043	23,353,116	26,563,353	25,579,892	25,068,141	26,943,049
Business-type activities:										
Stormwater management	-	-	-	-	505,780	453,687	641,403	740,532	615,230	659,424
Total business-type activities	-	-	-	-	505,780	453,687	641,403	740,532	615,230	659,424
Total primary government expenses	$ 16,262,183	$ 23,175,579	$ 22,020,209	$ 24,342,232	$ 21,020,823	$ 23,806,803	$ 27,204,756	$ 26,320,424	$ 25,683,371	$ 27,602,473
Program Revenues										
Governmental activities:										
Charges for services:										
General government	$ 92,861	$ 119,560	$ 214,377	$ 189,589	$ 318,664	$ 110,324	$ 236,157	$ 190,051	$ 238,988	$ 251,053
Public safety	48,738	121,660	101,287	167,410	127,399	231,401	223,562	272,264	234,847	167,073
Public services	903,311	864,327	881,142	1,080,771	1,066,985	1,415,265	1,328,114	1,133,576	1,208,031	1,433,066
Culture and recreation	151,128	142,458	164,897	245,795	168,752	290,617	243,012	259,428	284,283	267,114
Operating grants and contributions	1,044,782	1,236,320	1,109,107	1,180,247	1,488,885	1,797,274	1,589,830	1,770,876	1,888,145	2,871,690
Capital grants and contributions	477,534	1,153,047	5,143,230	6,872,024	4,328,734	7,891,645	1,857,585	429,109	2,145,173	248,058
Total governmental activities program revenues	2,718,354	3,637,372	7,614,040	9,735,836	7,499,419	11,736,526	5,478,260	4,055,304	5,999,467	5,238,054
Business-type activities:										
Charges for services:	-	-	-	-	887,040	919,345	934,110	946,303	955,981	1,006,712
Capital grants and contributions	-	-	-	-	32,279	-	-	9,028	-	-
Total business-type activities program revenues	-	-	-	-	919,319	919,345	934,110	955,331	955,981	1,006,712
Total primary government program revenues	$ 2,718,354	$ 3,637,372	$ 7,614,040	$ 9,735,836	$ 8,418,738	$ 12,655,871	$ 6,412,370	$ 5,010,635	$ 6,955,448	$ 6,244,766

TOWN OF KERNERSVILLE, NORTH CAROLINA
CHANGES IN NET ASSETS
Last Ten Fiscal Years
(accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General revenues and other changes in net assets										
Governmental activities:										
Taxes										
Property taxes	$ 8,400,576	$ 8,695,241	$ 9,487,453	$ 10,551,391	$ 11,563,965	$ 12,276,712	$ 12,587,826	$ 12,741,009	$ 12,817,420	$ 12,696,485
Other taxes	559,046	491,060	526,137	607,479	917,167	339,268	228,614	229,200	232,061	246,837
Unrestricted intergovernmental revenue	3,909,269	4,961,678	5,117,674	5,493,952	5,327,277	6,477,866	5,792,713	5,810,076	5,993,815	6,200,440
Restricted intergovernmental revenue	359,449	-	-	-	-	-	-	-	-	-
Investments earnings, unrestricted	91,337	78,784	241,506	471,781	706,151	545,258	200,302	49,505	22,952	16,355
Transfers	-	-	-	-	58,311	68,847	263,845	283,845	290,330	177,330
Gain (loss) on disposal of capital assets	135,478	-	-	-	-	422,635	-	(23,524)	38,642	(1,581,296)
Capital contributions from developers	-	272,937	-	-	-	-	-	-	-	-
Grants and contributions not restricted to specific program	120,227	-	-	-	-	-	-	-	-	-
Donations of infrastructure	-	3,219,679	-	-	-	-	-	-	-	-
Miscellaneous	180,233	81,237	102,182	5,571	175,828	129,651	182,521	66,875	98,367	96,956
Total governmental activities	13,755,615	17,800,616	15,474,952	17,130,174	18,748,699	20,260,237	19,255,821	19,156,986	19,493,587	17,853,107
Business-type activities:										
Investments earnings, unrestricted	-	-	-	-	16,924	16,299	11,096	916	747	222
Transfers	-	-	-	-	(58,311)	(68,847)	(263,845)	(283,845)	(290,330)	(177,330)
Miscellaneous	-	-	-	-	-	4	-	-	-	-
Total business-type activities					(41,387)	(52,544)	(252,749)	(282,929)	(289,583)	(177,108)
Total primary government program revenues	$ 13,755,615	$ 17,800,616	$ 15,474,952	$ 17,130,174	$ 18,707,312	$ 20,207,693	$ 19,003,072	$ 18,874,057	$ 19,204,004	$ 17,675,999
Change in net assets										
Governmental activities	$ 211,786	$ (1,737,591)	$ 1,068,783	$ 2,523,778	$ 5,733,075	$ 8,643,647	$ (1,829,272)	$ (2,367,602)	$ 424,913	$ (3,851,888)
Business activities	-	-	-	-	372,152	413,114	39,958	(68,130)	51,168	170,180
Total primary government change in net assets	$ 211,786	$ (1,737,591)	$ 1,068,783	$ 2,523,778	$ 6,105,227	$ 9,056,761	$ (1,789,314)	$ (2,435,732)	$ 476,081	$ (3,681,708)
Net assets - beginning	* 114,515,164	114,726,950	112,989,359	114,058,142	* 116,581,920	122,687,147	131,743,908	129,954,594	127,518,862	127,994,943
Net assets - ending	$ 114,726,950	$ 112,989,359	$ 114,058,142	$ 116,581,920	$ 122,687,147	$ 131,743,908	$ 129,954,594	$ 127,518,862	$ 127,994,943	$ 124,313,235

*Notes: * Restated Net Assets*

Source: Exhibit 2 (Statement of Activities in Basic Financial Statements)

Table 3

TOWN OF KERNERSVILLE, NORTH CAROLINA
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved	$ 1,171,773	$ 1,491,785	$ 1,475,320	$ 2,514,747	$ 1,782,385	$ 1,843,203	$ 1,685,444	$ 1,745,510	N/A	N/A
Unreserved	5,612,385	6,410,472	6,143,912	5,094,836	5,859,677	8,032,164	7,711,465	7,214,136	N/A	N/A
Non-spendable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$ 22,917	$ 14,490
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,588,285	2,939,846
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	147,933	625,097
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	302,337	500,654
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7,034,981	5,619,305
Total general fund	6,784,158	7,902,257	7,619,232	7,609,583	7,642,062	9,875,367	9,396,909	8,959,646	9,096,453	9,699,392
All other governmental funds										
Reserved	75,178	233,009	200,877	628,635	36,154	38,724	219,342	144,729	N/A	N/A
Unreserved, reported in:										
Special revenue funds	360,007	641,243	426,552	1,540,238	1,067,588	666,922	639,156	342,578	N/A	N/A
Capital projects funds	(1,806,528)	3,675,233	2,432,540	2,677,188	3,811,937	4,222,041	2,723,237	2,190,716	N/A	N/A
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	429,216	200,460
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,766,051	798,805
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	119,429	338,229
Total all other governmental funds	(1,371,343)	4,549,485	3,059,969	4,846,061	4,915,679	4,927,687	3,581,735	2,678,023	2,314,696	1,337,494
Total fund balance	$ 5,412,815	$ 12,451,742	$ 10,679,201	$ 12,455,644	$ 12,557,741	$ 14,803,054	$ 12,978,644	$ 11,637,669	$ 11,411,149	$ 11,036,886

Source: Exhibit 3 in Basic Financial Statements

Table 4

TOWN OF KERNERSVILLE, NORTH CAROLINA
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues by Source										
Taxes (see Exhibit 4)	$ 8,365,299	$ 8,692,133	$ 9,393,004	$ 10,586,204	$ 11,570,532	$ 12,108,386	$ 12,521,037	$ 12,550,214	$ 12,642,432	$ 12,687,750
Other taxes and licenses	559,047	491,060	526,136	607,479	560,279	339,268	228,614	229,200	232,061	246,837
Unrestricted intergovernmental	3,723,006	4,961,678	5,117,674	5,493,952	6,029,846	6,477,866	5,792,713	5,810,076	5,993,815	6,200,440
Restricted intergovernmental	1,232,444	1,985,631	1,384,633	3,018,243	1,857,533	1,760,831	2,002,952	936,279	1,086,336	1,926,452
Penalties and interest	149,774	149,769	269,064	504,173	676,364	584,913	230,393	106,130	90,490	35,242
Contributions and donations	376,960	178,316	106,144	175,618	133,806	801,167	814,931	828,882	883,787	889,458
Other revenues	130,391	315,130	259,987	1,722,565	175,828	705,381	278,612	204,547	201,349	216,806
Functionally related revenues	1,200,806	1,248,521	1,361,703	252,232	1,630,892	2,001,435	1,940,009	1,768,038	1,894,698	2,054,306
Total revenues	15,737,727	18,022,238	18,418,345	22,360,466	22,635,080	24,779,247	23,809,261	22,433,366	23,024,968	24,257,291
Expenditures by Function										
General government	1,979,975	2,009,148	1,976,429	2,125,130	2,090,748	2,350,399	2,563,180	2,640,872	2,772,127	4,462,355
Public safety	6,834,281	7,921,600	8,616,209	9,122,834	9,666,545	9,781,588	10,868,418	11,506,087	11,503,502	11,613,615
Public service	5,248,178	11,511,065	10,010,327	9,086,356	7,101,508	7,911,537	9,043,625	6,243,526	6,142,344	6,423,007
Cultural and recreation	766,203	1,250,699	1,922,814	1,232,275	1,293,072	1,184,349	1,013,620	1,184,167	1,258,562	1,351,629
Debt service										
Principal retirement	1,085,868	1,166,436	1,282,123	2,003,590	2,121,298	2,509,023	2,403,066	2,349,438	2,052,936	1,865,247
Interest and fiscal charges	269,478	422,413	461,589	664,668	691,913	731,654	593,917	530,396	458,547	401,301
Total expenditures	16,183,983	24,281,361	24,269,491	24,234,853	22,965,084	24,468,550	26,485,826	24,454,486	24,188,018	26,117,154
Excess of revenue over (under) expenditures	(446,256)	(6,259,123)	(5,851,146)	(1,874,387)	(330,004)	310,697	(2,676,565)	(2,021,120)	(1,163,050)	(1,859,863)
Other Financing Sources (Uses)										
Proceeds from installment purchases	343,175	1,270,350	1,329,533	1,752,750	1,396,571	1,579,047	588,310	396,300	646,200	1,383,000
Proceeds from bonds	-	7,000,000	-	-	-	-	-	-	-	-
Proceeds from loans	-	4,201,294	2,935,022	-	-	-	-	-	-	-
Issuance of debt-loan	-	-	-	863,684	-	-	-	-	-	-
CCUC debt reimbursement	-	-	-	610,308	-	-	-	-	-	-
Prior escrow proceeds	-	-	-	438,718	-	-	-	-	-	-
Capital contributions from developers	-	272,937	-	-	-	-	-	-	-	-
Sale of capital assets	135,478	-	-	-	-	-	-	-	-	-
Transfers in	736,106	985,154	2,002,508	2,612,448	2,047,451	2,292,951	1,855,396	2,310,635	2,315,206	2,049,154
Transfers out	(736,106)	(985,154)	(2,002,508)	(2,627,078)	(2,181,921)	(1,937,387)	(1,591,551)	(2,026,790)	(2,024,876)	(1,946,554)
Total other financing sources	478,653	12,744,581	4,264,555	3,650,830	1,262,101	1,934,611	852,155	680,145	936,530	1,485,600
Net change in fund balances	$ 32,397	$ 6,485,458	$ (1,586,591)	$ 1,776,443	$ 932,097	$ 2,245,308	$ (1,824,410)	$ (1,340,975)	$ (226,520)	$ (374,263)
Capital outlay included in total expenditures	$ 1,051,480	$ 4,304,678	$ 3,897,881	$ 1,906,176	$ 2,785,324	$ 1,857,645	$ 1,745,367	$ 781,480	$ 1,000,053	$ 2,177,625
Debt service as a percentage of noncapital expenditures	9.0%	8.0%	8.6%	11.9%	13.9%	14.3%	12.1%	12.2%	10.8%	9.5%

Source Exhibit #4

Table 5

TOWN OF KERNERSVILLE, NORTH CAROLINA
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Property Tax
2003	$ 8,365,299
2004	8,692,133
2005	9,393,004
2006	10,586,205
2007	11,570,532
2008	12,108,386
2009	12,521,037
2010	12,550,214
2011	12,642,432
2012	12,687,750
Change from 2003 to 2012	51.7%

Note: The Town's largest revenue source is Ad Valorem Taxes. Property tax increase is due to continued real property value growth and continued diligence in the collection of property taxes. This year's collection rate was 97.75%.

Table 6

TOWN OF KERNERSVILLE, NORTH CAROLINA
DIRECT AND OVERLAPPING PROPERTY TAX RATES
Last Ten Fiscal Years
(rate per $100 of assessed value)

	Town Direct Rates				
Fiscal Year	Basic Rate	General Obligation Streets Debt Service[a]	Total Direct	Forsyth County[b]	Guilford County[b]
2003	0.4950	-	0.4950	0.6920	
2004	0.4950	-	0.4950	0.6920	
2005	0.4750	0.05	0.5250	0.7080	
2006	0.4750	0.05	0.5250	0.6660	
2007	0.5000	0.05	0.5500	0.6660	
2008	0.5000	0.05	0.5500	0.6960	
2009	0.5000	0.05	0.5500	0.6740	0.7374
2010	0.4475	0.05	0.4975	0.6740	0.7374
2011	0.4475	0.05	0.4975	0.6740	0.7374
2012	0.4475	0.05	0.4975	0.6740	0.7374

Source: Forsyth County Tax Office and Guilford County Tax Office

Note: As approved by the citizens of Kernersville in the Bond Referendum held in the November General Election of 1998, the Town will transfer the equivalent of five cents on the tax rate to the Transportation Fund. These funds, along with the transfer of some existing General Fund Revenues, will then be used to retire the debt generated by the sale of the long-term bonds sold on May 4, 2004.

The Town's basic property tax rate may be increased only by a majority vote of the Town's Board of Aldermen.

Note: Rates for debt service are set based on each year's requirements.

[a] *A separate debt service fund has not been established, but revenues equal to five cents on the tax rate are transferred to the Transportation Capital Projects Ordinance Fund each year to pay the annual street bond debt.*

[b] *Overlapping rates are those of local and county governments that apply to property owners within the Town of Kernersville.*

Table 7

TOWN OF KERNERSVILLE, NORTH CAROLINA
PRINCIPAL PROPERTY TAXPAYERS
Current Year and Nine Years Ago

	2012			2003		
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Pope Companies	$ 55,626,840	1	2.16%	$ 39,444,646	1	2.29%
Novant Heath Inc.	55,093,560	2	2.10%	-		-
Deere-Hitachi Mfg. Corp.	32,547,220	3	1.27%	21,539,596	2	1.25%
Hommel Brown Group Lic	29,671,700	4	1.15%	-		-
Grass America, Inc.	25,095,170	5	0.98%	17,165,051	4	1.00%
DLS Kernersville, LLC	22,043,170	6	0.86%	21,130,707	3	1.23%
Wal-Mart Real Estate Bus. Trust	19,224,530	7	0.75%	15,815,354	5	0.92%
Duke Energy Corp.	18,110,330	8	0.70%	11,457,374	10	0.67%
Lowes Home Centers Inc.	17,011,070	9	0.66%	-		-
Roadway Express, Inc.	15,753,900	10	0.61%	12,849,293	8	0.75%
Foster Apartment Group, LLC	-		-	13,891,914	6	0.81%
Time Warner Cable	-		-	13,570,909	7	0.79%
Sepia, Inc. d/b/a Dudley Products	-		-	12,559,192	9	0.73%
	$ 290,177,490		11.24%	$ 179,424,036		10.44%

Source: Forsyth County Tax Office

Table 8

TOWN OF KERNERSVILLE, NORTH CAROLINA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2002	$ 8,652,937	$ 8,489,298	98.11%	$ 135,060	$ 8,624,358	99.67%
2003	8,953,013	8,810,253	98.41%	128,346	8,938,599	99.84%
2004	9,746,677	9,557,501	98.06%	159,028	9,716,529	99.69%
2005	10,881,856	10,694,040	98.27%	148,067	10,842,107	99.63%
2006	11,875,246	11,699,663	98.52%	118,549	11,818,212	99.52%
2007	12,486,971	12,292,288	98.44%	155,580	12,447,868	99.69%
2008	12,901,217	12,666,973	98.18%	213,210	12,880,183	99.84%
2009	13,044,986	12,748,806	97.73%	178,188	12,926,994	99.10%
2010	13,216,546	12,881,345	97.46%	246,939	13,128,284	99.33%
2011	13,048,827	12,755,708	97.75%	319,197	13,074,905	100.20%

Sources: Forsyth County Tax Office

Table 9

TOWN OF KERNERSVILLE, NORTH CAROLINA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Public Service Companies Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2003	$ 699,450,040	$ 433,749,650	$ 184,016,520	$ 34,559,555	$ 4,075,800	$ 1,347,699,965	0.4950	$ 1,719,330,524	78.39%
2004	739,902,940	443,890,250	187,197,040	35,988,765	5,056,700	1,401,922,295	0.4950	1,719,330,524	81.54%
2005	777,103,470	454,462,950	187,049,050	32,903,882	5,470,400	1,446,048,952	0.5250	1,766,987,677	81.84%
2006	899,129,900	518,542,100	212,081,260	34,043,883	6,680,600	1,657,116,543	0.5250	1,824,445,645	90.83%
2007	933,915,850	539,076,760	208,905,340	40,005,450	7,017,000	1,714,886,400	0.5500	2,040,819,236	84.03%
2008	965,048,470	578,761,960	215,866,050	42,738,740	7,017,000	1,795,398,220	0.5500	2,127,437,022	84.39%
2009	1,071,923,982	649,891,522	22,817,874	42,235,983	10,741,776	1,776,127,585	0.5500	2,228,066,118	79.72%
2010	1,366,205,630	669,160,371	66,381,566	44,319,081	12,774,988	2,133,291,660	0.4975	2,298,013,998	92.83%
2011	1,378,909,152	624,082,003	74,881,666	49,694,428	13,050,510	2,114,516,739	0.4975	2,621,589,607	80.66%
2012	1,379,732,482	607,007,003	64,306,520	45,617,523	14,560,840	2,082,102,688	0.4975	2,571,394,840	80.97%

Source: Forsyth County Tax Assessor's Office TR-1 Report. & Guilford County Tax Assessor's TR-1 Report

Note: Property in Forsyth County is reassessed once every four years. Property in Guilford County is reassessed once every eight years.

Total Taxable Assessed Value includes: all residential, commercial and industrial real property, Public Service Company Property less Tax-Exempt Property (no vehicles or personal property included).

Actual Taxable Value includes: all Total Taxable Assessed Value plus registered motor vehicles, personal property and discoveries, net of releases.

TOWN OF KERNERSVILLE, NORTH CAROLINA
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

	Governmental Activities					Business-Type Activities			
Fiscal Year	General Obligation Bonds	Water and Sewer Refunding Bonds	State Revolving Loan	Term Loan Payable	Installment Purchases	Installment Purchases	Total Primary Government	Percentage of County Personal Income	Per Capita[a]
2003	$ -	$ 70,000	$ -	$ -	$ 4,446,375	$ -	$ 4,795,212	45.86%	$ 248
2004	7,035,000	35,000	4,201,294	-	4,585,289	-	4,516,375	157.18%	227
2005	6,900,000	-	7,136,316	-	4,767,698	-	15,856,583	172.87%	774
2006	6,800,000	-	7,600,000	-	5,016,524	-	18,804,014	172.01%	905
2007	6,700,000	-	7,200,000	-	4,713,122	43,398	19,416,524	156.87%	913
2008	6,350,000	-	6,800,000	-	4,533,147	6,818	18,656,520	139.34%	861
2009	6,000,000	-	6,400,000	-	3,468,391	147,111	17,689,965	120.97%	806
2010	5,600,000	-	6,000,000	-	2,315,253	109,410	16,015,502	n/a	716
2011	5,200,000	-	5,600,000	-	1,708,517	74,079	14,024,663	n/a	610
2012	4,800,000	-	5,200,000	-	2,026,270	37,621	12,063,891	n/a	507

Note: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

Note: [1] On July 1, 1995, the Town of Kernersville entered into an agreement whereby substantially all assets of the Water and Sewer Enterprise Fund were transferred to the Winston-Salem/Forsyth County Utility Commission (CCUC). Under the terms of this agreement, the Commission assumed responsibility for payment of all liabilities of the Water and Sewer Fund (including the payment of principal and interest on all Water and Sewer Fund general obligation bonds). However, these bonds remain in the name of the Town of Kernersville. The required future principal payments on this debt have been recorded in the Town's General Long-Term Debt Account Group. The Commission also received the right to charge for future water and sewer sales to Town of Kernersville residents, assumed the responsibility for future water and sewer sales to Town of Kernersville residents and assumed the responsibility for future maintenance and operation of the water and sewer system.

[a] *See Table 14 for personal income for Forsyth County and population data for the Town of Kernersville. These ratios are calculated using population for the prior calendar year.*

Table 11

TOWN OF KERNERSVILLE, NORTH CAROLINA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Total	Percentage of G.O. Debt to Actual Taxable Value of Property [a]	Per Capita [b]
2003	$ 70,000	$ 70,000	0.0041%	$ 3.52
2004	7,035,000	7,035,000	0.3981%	343.27
2005	6,900,000	6,900,000	0.3782%	332.21
2006	6,800,000	6,800,000	0.3332%	319.59
2007	6,700,000	6,700,000	0.3149%	309.31
2008	6,350,000	6,350,000	0.2850%	289.15
2009	6,000,000	6,000,000	0.2611%	268.59
2010	5,600,000	5,600,000	0.2136%	243.51
2011	5,200,000	5,200,000	0.2136%	243.51
2012	4,800,000	4,800,000	0.1867%	201.83

Note: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

[a] *See Table 5 for property value data.*
[b] *Population data can be found in Table 14.*

Table 12

TOWN OF KERNERSVILLE, NORTH CAROLINA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of June 30, 2012

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable [a & b]	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Forsyth County's general obligation debt	$ 499,600,000	7.394%	$ 36,940,424
Town of Kernersville's direct debt			4,800,000
Total direct and overlapping debt			$ 41,740,424

[a] *Source: Forsyth County*

Notes:
1. The percentage of overlap is based on assessed property values.

[b] *For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value with is within the County's boundaries and dividing it by each unit's total taxable assessed value. This approach was also used for the Town of Kernersville's other debt.*

TOWN OF KERNERSVILLE, NORTH CAROLINA
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years

Legal Debt Margin Calculation for Fiscal Year 2012	
Assessed value	$ 2,571,394,840
Debt limit (8% of assessed value)	205,711,587
Debt applicable to limit:	
General obligation bonds	4,800,000
Legal debt margin	$ 200,911,587

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	$ 137,546,442	$ 141,359,014	$ 145,955,652	$ 163,265,539	$ 170,194,976	$ 178,245,289	$ 183,841,120	$ 209,725,569	$ 208,744,800	$ 205,711,587
Total net debt applicable to limit	70,000	7,035,000	6,900,000	6,800,000	6,700,000	6,350,000	6,000,000	5,600,000	5,200,000	4,800,000
Legal debt margin	$ 137,476,442	$ 134,324,014	$ 139,055,652	$ 156,465,539	$ 163,494,976	$ 171,895,289	$ 177,841,120	$ 204,125,569	$ 203,544,800	$ 200,911,587
Total net debt applicable to the limit as a percentage of debt limit	0.05%	4.98%	4.73%	4.16%	3.94%	3.56%	3.26%	2.67%	2.49%	2.33%

Note: Under state finance law, the Town's outstanding general obligation debt should not exceed 8% of total assessed property value.

Table 14

TOWN OF KERNERSVILLE, NORTH CAROLINA
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Calendar Years

Calendar Year	Population [1]	Personal Income [1]	Per Capita Personal Income [1]	Median Age [1]	School Enrollment [2]	Unemployment Rate [3]
2003	19,859	$ 10,088,416	$ 32,672	36.8	6,462	5.6%
2004	20,494	10,877,453	34,558	37	6,495	5.0%
2005	20,770	11,287,790	35,313	37.2	6,688	4.7%
2006	21,277	11,892,689	36,576	37.4	6,740	4.3%
2007	21,661	12,695,131	37,301	37.6	6,635	4.4%
2008	21,961	13,238,790	37,278	37.8	6,759	5.8%
2009	22,368	N/A	N/A	36.7	7,049	10.1%
2010	22,997	N/A	N/A	N/A	6,924	9.6%
2011	23,199	N/A	N/A	N/A	7,020	10.1%
2012	23,782	N/A	N/A	N/A	7,839	9.5%

Note: Personal Income, Per Capita Personal Income, Median Age and Unemployment rates are not available for the Town of Kernersville. Statistics for Forsyth County were used.

[1] *Office of State Budget and Management, Information for Forsyth County was used.*

[2] *Winston-Salem/Forsyth County School System.*

[3] *Employment Security Commission; Forsyth County rates were used.*

TOWN OF KERNERSVILLE, NORTH CAROLINA
PRINCIPAL EMPLOYERS FOR FORSYTH COUNTY
Current Year and Nine Years Ago

	2012 [1]			2003 [2]		
Employer	Number of Employees	Rank	Percentage of Total County Employment	Number of Employees	Rank	Percentage of Total County Employment
Wake Forest University Baptist Medical Center	12,837	1	7.9%	11,121	1	7.1%
Novant Health and Affiliates	8,145	2	5.0%	7,000	3	4.5%
Winston-Salem/Forsyth County School System	6,692	3	4.1%	7,020	2	4.5%
Reynolds American [b]	3,000	4	1.8%	5,930	5	3.8%
Hanes Brands, Inc. [a]	2,800	5	1.7%	6,000	4	3.8%
Wells Fargo Bank [c]	2,800	6	1.7%	3,400	6	2.2%
City of Winston-Salem	2,660	7	1.6%	2,600	7	1.7%
BB&T Corporation	2,200	8	1.3%	N/A		-
Forsyth County	2,029	9	1.2%	1,859	9	1.2%
Wake Forest University	1,680	10	1.0%	1,581	10	1.0%
US Airways	N/A		-	1,885	8	1.2%
Total	44,843		27.5%	48,396		30.9%

[1] *estimates as of November 2012*
[2] *estimates as of June 2003*

[a] *formerly Sara Lee Personal Products*
[b] *formerly RJR Nabisco, Inc.*
[c] *formerly Wachovia Corporation*

Sources: Number of employees provided by the Greater Winston-Salem Chamber of Commerce, as reported by individual companies and institutions. County civilian labor force information used to calculate percentage of total employment provided by the North Carolina Employment Security Commission.

Source: Forsyth County Tax Office.

Table 16

TOWN OF KERNERSVILLE, NORTH CAROLINA
FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
Governing body	6	6	6	6	6	6	6	6	6	6
Administration Department	3	3	2	3	4	4	3	3	3	3
Finance	4	4	4	4	4	5	5	5	5	6
Information Technology	1	1	1	1	2	2	3	3	3	3
Planning & Zoning	4	3	5	4	4	4	4	4	4	4
Inspections	4	5	5	7	6	6	6	6	6	5
Personnel	3	4	4	3	3	3	3	3	4	4
General Services	3	3	3	4	3	3	3	3	2	3
Police										
Officers	56	57	62	66	66	68	66	68	68	63
Civilians	12	15	15	18	15	16	19	15	15	20
Fire										
Firefighters and officers	59	59	65	65	67	62	67	68	68	68
Civilians	1	1	1	1	1	1	1	1	1	1
Public Services										
Engineering	3	3	3	2	3	3	3	3	3	2
Street	17	17	15	16	16	15	17	17	17	19
Sanitation	15	15	15	23	25	25	23	23	25	22
Transportation	-	-	-	-	-	-	6	6	6	4
Public Works Administration	9	9	9	9	11	11	6	5	4	4
Central Maintenance	6	6	6	7	7	7	8	7	9	8
Stormwater Enterprise	-	-	-	-	6	6	5	5	5	5
Culture & Recreation										
Recreation	6	9	9	9	17	17	9	8	8	8
Total	212	220	230	248	266	264	263	259	262	258

Source: Town's Payroll Department

Table 17

TOWN OF KERNERSVILLE, NORTH CAROLINA
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Physical arrests	2,500	2,549	2,849	3,078	2,479	2,744	2,901	850	851	1,077
Parking violations	156	111	127	154	571	602	373	301	180	170
Traffic violations	3,157	2,359	4,224	4,122	3,818	3,514	1,300	3,148	3,211	4,859
Fire										
Emergency responses	2,370	1,998	2,054	1,889	2,378	2,489	2,489	2,587	2,740	2,642
Fires extinguished	119	86	100	95	99	180	180	124	123	83
Inspections	578	812	370	476	902	1,179	1,179	1,088	1,284	1,872
Refuse collection										
Refuse collected (tons per year)	15,654	15,030	15,118	14,084	15,209	13,962	13,248	13,384	13,283	13,283
Recyclables collected (tons per year)	5,484	3,765	3,025	3,956	4,078	3,483	4,311	4,277	5,878	5,878
Other public works										
Street resurfacing (miles)	1.6	1.2	1.6	1.6	2.5	3.1	1.8	1.6	3.3	-
Potholes repaired (square yards)	6,342	5,774	6,277	6,585	1,797	1,444	1,654	1,512	1,115	2,969
Parks and recreation										
Athletic field permits issued	30	29	31	29	32	32	32	32	32	32

N/A = not available.

Sources: Various Town departments

Note: Indicators are not available for the general government function.

Table 18

TOWN OF KERNERSVILLE, NORTH CAROLINA
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Policemen and officers	56	57	62	66	66	67	67	68	68	68
Annual police calls to which responded	29,102	29,825	32,646	34,507	34,831	36,407	41,136	34,676	37,836	41,880
Annual traffic accidents	1,288	1,311	1,313	1,270	1,447	1,403	1,300	1,242	1,357	1,346
Annual number of arrests (18 years and over)	2,592	2,450	2,463	3,078	2,479	1,744	2,901	1,271	1,202	2,575
Fire stations	4	4	4	4	4	4	4	4	4	4
Firemen and officers	59	59	65	65	67	65	68	68	68	68
Annual fire calls	2,264	2,313	2,003	1,889	2,378	2,489	2,532	2,587	2,740	2,642
Building permits issued	377	335	348	369	349	321	253	215	173	144
Value of building permits issued	$ 31,419,657	$ 58,283,673	$ 39,804,790	$ 52,767,802	$ 45,689,811	$ 55,146,840	$ 57,883,794	$ 15,570,649	$ 10,376,351	$ 11,464,132
Public services										
Streets (miles)	86.809	88.586	89.884	90.780	91.800	94.272	94.590	94.696	95.288	94.567
Streetlights	2,703	2,748	2,797	2,871	2,885	2,931	3,042	3,098	3,100	3,100
Traffic signals	29	30	30	30	38	38	28	28	28	28
Parks and recreation										
Parks	6	6	6	6	7	7	7	7	7	7
Total acreage of parks	277	277	277	277	289	294	294	294	294	294
Lighted tennis courts	6	6	6	6	6	6	6	6	6	6
Recreation centers	1	1	1	1	1	1	1	1	1	1
Baseball/softball diamonds	3	3	3	3	3	3	3	3	3	3
Soccer fields	5	5	5	5	5	5	5	5	5	5
Fishing and boating lakes										
Owned and operated by the Town	1	1	1	1	2	2	2	2	2	2
Owned and operated by Forsyth County	1	1	1	1	1	1	1	1	1	1

Sources: Various Town Departments
Note: No capital asset indicators are available for the general government function.

SUPPLEMENTARY INFORMATION:

COMPLIANCE SECTION

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Kernersville
Kernersville North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kernersville, North Carolina as of and for the year ended June 30, 2012, which collectively comprise the Town of Kernersville's basic financial statements, and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Town of Kernersville is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Kernersville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Kernersville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

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Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider Finding 2012-1, described in the accompanying schedule of findings and responses, to be a material weakness in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Kernersville'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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, members of the Board of Aldermen, and federal and State awarding agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

November 30, 2012

SUPPLEMENTARY INFORMATION:

SINGLE AUDIT SECTION

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

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Kernersville, North Carolina

Compliance

We have audited Town of Kernersville, North Carolina, compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Town of Kernersville's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Kernersville's management. Our responsibility is to express an opinion on the Town of Kernersville's compliance based on our audit.

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

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Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

In our opinion, the Town of Kernersville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

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

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

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the Board of Aldermen, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

November 30, 2012

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

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Kernersville, North Carolina

Compliance

We have audited Town of Kernersville, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of its major state programs for the year ended June 30, 2012. The Town of Kernersville's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the Town of Kernersville's management. Our responsibility is to express an opinion on the Town of Kernersville's compliance based on our audit.

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

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Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

In our opinion, the Town of Kernersville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2012.

Internal Control over Compliance

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

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

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the Board of Aldermen, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

November 30, 2012

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
• Material weakness (es) identified?	X	Yes		No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major federal programs:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None reported
Type of auditors' report issued on compliance for major state program(s):	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?		Yes	X	No

Identification of major federal program(s):

CFDA Number	Names of Federal Program or Cluster
81.041	ARRA - State Energy Program

Dollar threshold used to distinguish between Type A and Type B Programs:	$ 300,000			
Auditee qualified as low-risk auditee?		Yes	X	No

I. Summary of Auditors' Results (Continued)

State Awards

Internal control over major state programs:				
• Material weaknesses identified?	_____	Yes	X	No
• Significant deficiencies identified that are not considered to be material weaknesses?	_____	Yes	X	None reported
Type of auditors' report issued on compliance for major state programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?	_____	Yes	X	No

Identification of major state program(s):

Program Name
Powell Bill

II. Financial Statement Findings

Finding 2012-1

Material Weakness

Criteria: An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financing reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Condition: The Town has limited controls over producing formal GAAP-based financial statements which include relevant footnote disclosures.

Effect: These limited controls could result in materially misstated financial statements or footnote disclosures.

Cause: The cause of this limitation is a lack of employees trained to produce GAAP-based financial statements and footnote disclosures.

Recommendation: We recommend that management designate and train a responsible employee to oversee and produce the formal GAAP-based financial statements and relevant footnotes.

View of Responsible Official and Planned Corrective Action:

Name of contact person: Franz Ader, Finance Director

Corrective Action: The Town of Kernersville would require additional resources and time to draft the annual financial report. The Town has a limited finance staff and would require additional manpower to draft the financial statements. The Town accepts full responsibility for the report and, as always, thoroughly reviews the financial statements drafted by the external auditor. The modified accrual financial statements and relevant footnoted disclosures are thoroughly understood and the auditors continue to prepare them as a matter of convenience. The current Town staff will continue to gain a more thorough understanding of the full accrual (GAAP-based) financial statements.

Proposed Completion Date: Ongoing.

.

III. Federal Awards Findings and Questioned Costs

Not applicable.

IV. State Awards Findings and Questioned Costs

There were no findings related to state awards for the fiscal year ended June 30, 2012.

Finding: 2011-1

Status: See Finding 2012-1.

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

Grantor/Program Title	Federal CFDA Number	Grant Number	Award Receipts	Federal (Direct and Pass-through) Expenditures	State Expenditures
Federal grants:					
U.S. Department of Energy					
Passed through NC Department of Commerce					
Energy Efficient Grant	81.128	DE-EE0000771	$ 67,250	$ 67,250	$ -
ARRA - State Energy Program	81.041	DE-EE0000157	497,113	497,113	-
Total U.S. Department of Energy			564,363	564,363	-
U.S. Department of Justice					
Direct Programs					
Federal Asset Forfeiture Funds	16.000	NC0-340100	127,024	127,024	-
Organized Crime Drug Enforcement Task Forces	16.000	50CD04984	17,554	17,554	-
Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-0264	6,000	6,000	-
Total U.S. Department of Justice			150,578	150,578	-
U.S. Department of Transportation					
Passed through the NC Department of Transportation:					
Governor's Highway Safety Program					
Know Your Speed	20.600	PT-12-03-03-14	13,460	13,460	
Safe Routes to School (School St. Sidewalk)	20.205	WBS 40924.3.58	55,689	55,689	-
Total U.S. Department of Transportation			69,149	69,149	-
U.S. Department of Homeland Security					
Direct Programs					
Federal Emergency Management Agency					
SAFER	97.083	EMW-2008-FF-00362	51,035	51,035	-
Total U.S. Department of Homeland Security			51,035	51,035	-
Total assistance - federal programs			835,125	835,125	-
State grants:					
NC Department of Transportation					
Direct Programs					
Powell Bill			611,558	-	611,558
Total NC Department of Transportation			611,558	-	611,558
NC Dept. of Crime Control and Public Safety					
Direct Programs					
GREAT 2009	16.738	034-1-08-001-BH-203	4,946	-	4,946
Total NC Dept. of Crime Control and Public Safety			4,946	-	4,946
NC Dept. of Environmental and Natural Resources					
Direct Programs					
Environmental Assistance and Outreach 2011					
Community Waste Reduction and Recycling		4113	24,000	-	24,000
2011 Urban and Community Forestry Program		3327	5,648	-	5,648
Total NC Dept. of Environmental and Natural Resources			29,648	-	29,648
Total assistance - state programs			646,152	-	646,152
Total assistance			$ 1,481,277	$ 835,125	$ 646,152

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of the Town of Kernersville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the State Single Audit Implementation Act. Therefore, some amounts presented in this Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.