

**Comprehensive Annual Financial Report
Year Ended
June 30, 2011**

**Town of Kernersville,
North Carolina**



Dawn H. Morgan, Mayor

Kevin Bugg, Mayor Pro-Tem

Keith Mason

Dana C. Jones

Tracey H. Shifflette

Bob Prescott

Curtis L. Swisher

Town Manager

Franz Ader, PE

Finance Director

Cynthia Stevens

Accountant

“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

Kevin Bugg, Mayor Pro-Tem

Dana C. Jones

Bob Prescott

Tracey H. Shifflette

Town Manager

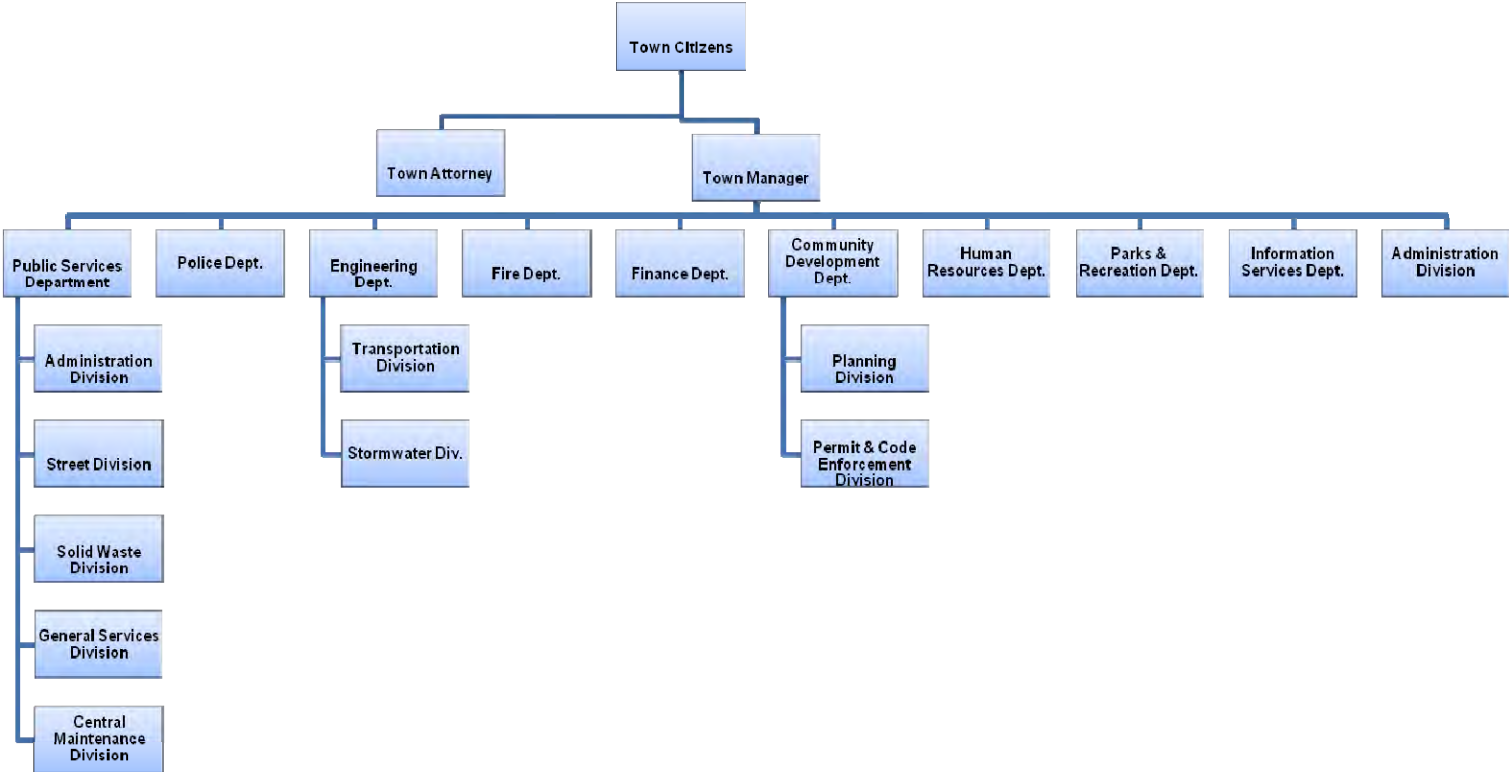
Curtis L. Swisher

Finance Director

Franz Ader, PE

Town of Kernersville, North Carolina

ORGANIZATIONAL CHART



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 municipalities in the state. The Town of Kernersville currently occupies a land area of 17.576 square miles and serves a population of 23,123. 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

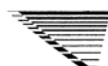
The local economy continues to experience growth during this fiscal year, which has allowed Kernersville to increase its tax base. Planning for the needs of the community and enhancing the quality of life in Kernersville are two of the Town's top goals. Kernersville continues to develop and benefit from the considerable efforts of the Town's departments and long range planning. Although growth in Kernersville has slowed similar to 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 2010-11 include the following:

1. The Downtown Square project was completed in the summer of 2010. The project involved the removal of the existing string pole traffic signal on wood poles at the Main Street and Mountain Street intersection and replacement with decorative mast arms. A decorative crosswalk was also installed to complete the aesthetic enhancement of the downtown area that began with the previously completed North Main Rehabilitation project. Some of the funding for the decorative crosswalk came from North Carolina Department of Transportation (NCDOT) enhancement funds via a municipal agreement.

ALDERMEN

Kevin Bugg - Dana Caudill Jones - Keith Mason - Bob Prescott - Tracey H. Shifflette



NORTH CAROLINA'S
PIEDMONT
TRIAD

2. A resurfacing project began in the fall 2010 which consisted of the repaving of seven (7) roads for a total length of 3.3 miles, and the addition of pavement markings on several other Town owned roads. Work was completed in the fall of 2010 and financed with Town funds.
3. A traffic study occurred for the South Main and Old Winston Road intersection in 2011. Several minor improvements had been planned for the area by both the Town and NCDOT to address safety and operational concerns. With the potential of some development interest in the area, the study was commissioned to plan for a larger comprehensive solution to solve the intersection's operational deficiencies. The study is anticipated to wrap up in late 2011 and result in a plan for a major intersection improvement. The Town and NCDOT have committed funds to the project and more will be sought via the federal Surface Transportation Program - Direct Attributable (STP-DA funding).
4. A major Thoroughfare and Street Plan study committee was formed in March of 2010 with the goal of taking a comprehensive review of the Town's Thoroughfare and Street Plan and making recommendations with regards to the addition, deletion or modification of the Town's planned major and minor thoroughfares. The study committee anticipates wrapping up by the end of 2011, with recommendations that could change priorities of the Transportation element of the Town's Capital Improvement Plan (CIP).
5. A feasibility study began on extending sanitary sewer to the existing industrial area of Brookford Industrial Drive and Brookford Road in late 2010. Final design plans are scheduled for late 2011 and construction of the sanitary sewer extension scheduled for early 2012.

Future Town projects in the planning or slated for construction during the fiscal year 2011-12 include the following:

1. The School Street sidewalk project is scheduled to begin in fall of 2011. The project consists 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 is primarily funded by federal "Safe Routes to School" funds.
2. The Union Cross Road project 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 will primarily be funded by STP-DA and with a match from the Town.
3. 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 summer of 2012.
4. The Kerners Mill Creek Greenway Park is a greenway from Oakhurst Drive to Hopkins Road along the Kerners Mill Creek. A feasibility study was completed in 2010 and final design is to begin in fall of 2011. 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 summer of 2012.
5. The Angel Road 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 begin in spring of 2012.

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; 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 dollar, 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.
- 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 dollars of new industrial, commercial, and residential development as a result of these new opportunities over the next 10 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 and the Kernersville Downtown Preservation and Development 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, 2011.

The Report

The Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2011 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, 2011. 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, 2011 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, 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 or is in the process of addressing as appropriate.

GASB Statement No. 54 entitled “*Fund Balance Reporting and Governmental Fund Type Definitions*” establishes five (5) new categories or classifications of fund balances: nonspendable, restricted, committed, assigned, and unassigned. *Nonspendable* fund balance indicates the portion of fund balance which is associated with inventories. The *restricted* portion of fund balance is the amount designated by state constitution or enabling legislation. A portion of the fund balance is *committed* for specific purposes only by the formal actions of the Kernersville Board of Aldermen as the decision-making authority. The *assigned* fund balance – not meeting the criteria to be classified as restricted or committed, is also intended for use for specific purposes. In the general fund, the *unassigned* fund balance represents the remainder of fund balance or the spendable amount not identified by other classifications. The effective date of GASB Statement No. 54 was June 15, 2010.

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 2011 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, 2010

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.



Linda C. Sandson

President

Jeffrey R. Emer

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, 2011, 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 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, 2011, and the respective changes in financial position and cash flows, where applicable, 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 December 14, 2011 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 grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions on pages 3 through 16 and 60 through 63, respectively, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Kernersville. The introductory information, combining and individual nonmajor fund statements, budgetary schedules and other schedules as well as the accompanying schedule of expenditures of federal and state awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the State Single Audit Implementation Act, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the accompanying 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, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections listed in the table of contents have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Dixon Hughes Goodman LLP

December 14, 2011

TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2011

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, 2011. 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.

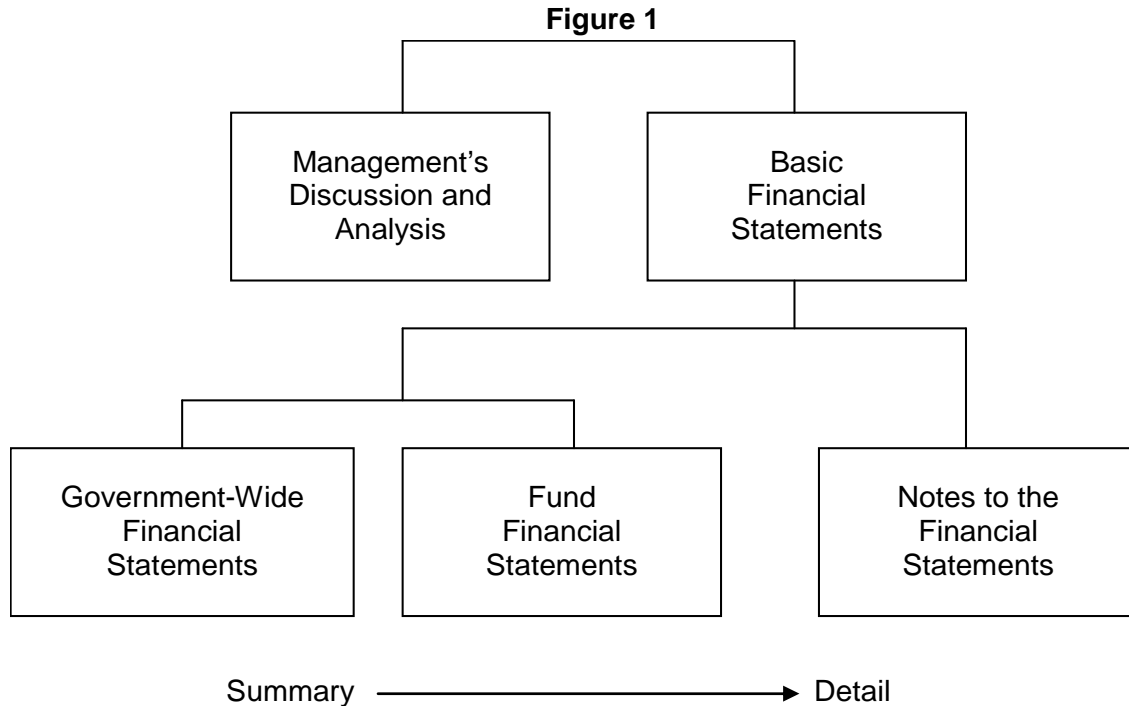
Financial Highlights

- The assets of the Town of Kernersville exceeded its liabilities at the close of the fiscal year by \$127,994,943.
- The government's total net assets increased by \$476,081 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 \$11,411,149. Approximately 61.7% of this total amount, or \$7,034,981, is available for spending at the government's discretion (unassigned).
- Approximately 16.8% of the total combined fund balance or \$1,913,984 is committed to transportation or capital projects. Approximately 3.7% of the total combined fund balance or \$421,766 is assigned to subsequent year's expenditures and about 17.9% or \$2,040,418 is restricted either or non-spendable for 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 \$7,034,981 represented 31.3% 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 \$1,442,067 or 10.3% for the fiscal year ended June 30, 2011. The decrease was primarily the result of \$1,288,267 in installment purchase contracts (various equipment) and normal principal retirement. Total debt currently stands at \$12,582,596.
- 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 2010-11, the Town's property tax rate was \$0.4975 and supported 56.1% 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



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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2011

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 Statutes 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

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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 29-58 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 59 of this report.

Government-Wide Financial Analysis

**NET ASSETS
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 13,599,661	\$ 13,603,636	\$ 542,619	\$ 468,339	\$ 14,142,280	\$ 14,071,975
Capital assets	131,087,531	131,432,878	378,855	430,302	131,466,386	131,863,180
Total assets	<u>144,687,192</u>	<u>145,036,514</u>	<u>921,474</u>	<u>898,641</u>	<u>145,608,666</u>	<u>145,935,155</u>
Long-term liabilities	13,736,889	14,486,599	113,213	70,592	13,850,102	14,557,191
Other liabilities	3,763,621	3,788,146	76,729	70,956	3,840,350	3,859,102
Total liabilities	<u>17,500,510</u>	<u>18,274,745</u>	<u>189,942</u>	<u>141,548</u>	<u>17,690,452</u>	<u>18,416,293</u>
Net assets:						
Invested in capital assets, net of related debt	124,206,117	123,530,664	304,776	320,892	124,510,893	123,851,556
Restricted for:						
Stabilization by State Statute	1,687,385	1,874,922	-	-	1,687,385	1,874,922
Unrestricted	1,293,180	1,356,183	503,485	436,201	1,796,665	1,792,384
Total net assets	<u>\$ 127,186,682</u>	<u>\$ 126,761,769</u>	<u>\$ 808,261</u>	<u>\$ 757,093</u>	<u>\$ 127,994,943</u>	<u>\$ 127,518,862</u>

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 \$127,994,943 of June 30, 2011. The largest portion of net assets reflects the Town's investment in capital assets (e.g., land,

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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 (1.3%) represents resources that are subject to external restrictions on how they may be used and a balance of \$1,796,665 is unrestricted.

- Property tax collections increased \$201,290 due to continued real property value growth and continued diligence in the collection of property taxes. This year's property tax collection rate was 97.46%.
- Sales and use tax revenues increased \$27,850 over last year's collections. This increase of 0.80% over last year's collections represents nominal economic growth in Kernersville.
- Investment earnings decreased \$15,640 from the prior year representing a 14.7% decrease due to the declining interest rates.

The net result of the above revenues and expenditures was an increase in total net assets in the amount of \$476,081 for the year (Figure 3).

**CHANGES IN NET ASSETS
Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues:						
Charges for Services:	\$ 1,966,149	\$ 1,855,319	\$ 955,981	\$ 946,303	\$ 2,922,130	2,801,622
Operating grants and contributions	1,888,145	1,770,876	-	-	1,888,145	1,770,876
Capital grants and contributions	2,145,173	429,109	-	9,028	2,145,173	438,137
General Revenues:						
Property taxes	12,817,420	12,741,009	-	-	12,817,420	12,741,009
Other taxes	232,061	229,200	-	-	232,061	229,200
Unrestricted intergovernmental revenues:	5,993,815	5,810,076	-	-	5,993,815	5,810,076
Investment earnings, unrestricted	22,952	49,505	747	916	23,699	50,421
Gain (Loss) on sale of capital assets	38,642	(23,524)	-	-	38,642	(23,524)
Miscellaneous	98,367	66,875	-	-	98,367	66,875
Total revenues	<u>25,202,724</u>	<u>22,928,445</u>	<u>956,728</u>	<u>956,247</u>	<u>26,159,452</u>	<u>23,884,692</u>
Expenditures						
General government	2,851,088	2,956,581	-	-	2,851,088	2,956,581
Public Safety	11,892,407	12,362,244	-	-	11,892,407	12,362,244
Public Service	8,420,247	8,460,438	-	-	8,420,247	8,460,438
Culture and recreation	1,455,623	1,306,327	-	-	1,455,623	1,306,327
Stormwater	-	-	615,230	740,532	615,230	740,532
Unallocated interest expense	448,776	494,302	-	-	448,776	494,302
Total expenses	<u>25,068,141</u>	<u>25,579,892</u>	<u>615,230</u>	<u>740,532</u>	<u>25,683,371</u>	<u>26,320,424</u>
Increase (decrease) in net assets before transf	134,583	(2,651,447)	341,498	215,715	476,081	(2,435,732)
Transfers	290,330	283,845	(290,330)	(283,845)	-	-
Increase (decrease) in net assets	424,913	(2,367,602)	51,168	(68,130)	476,081	(2,435,732)
Net assets, July 1	126,761,769	129,129,371	757,093	825,223	127,518,862	129,954,594
Net assets, June 30	<u>\$ 127,186,682</u>	<u>\$ 126,761,769</u>	<u>\$ 808,261</u>	<u>\$ 757,093</u>	<u>\$ 127,994,943</u>	<u>\$ 127,518,862</u>

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Governmental Activities. The Town's net assets from governmental activities increased by \$424,913 during the year. This net decrease is the result of several declining revenue sources.

Business-Type Activities. The Town's net assets from business-type activities decreased by \$51,168 during the year. This net increase is the result of additional expenditures.

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 governmental fund balance was \$11,411,149 of which \$2,040,418 was restricted and \$9,370,731 was unrestricted. Of the restricted portion, \$22,917 was reserved for prepaid assets while \$2,017,501 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, \$1,913,984 was committed to transportation or capital projects, \$421,766 was assigned for subsequent year's expenditures and \$7,034,981 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 31.3% of total General Fund expenditures, while total fund balance represents 50.7% of that same amount.

The Transportation Capital Project Ordinance Fund, used specifically for street maintenance and improvement purposes, had a total fund balance of \$1,294,131 of which \$1,208,517 was committed for street improvement purposes, and \$85,614 was restricted by state statutes.

The Town had six Nonmajor Funds having a total fund balance of \$1,020,565 at the fiscal year end. Of this amount, \$343,602 was restricted by state statutes or use while \$676,963 was unrestricted. Of the unrestricted amount, \$557,534 was committed for capital projects and \$119,429 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 due to the increase in tax collection and a decrease in spending. The Emergency Telephone System Fund saw a decrease in fund balance of 7.1% or \$10,025 due to a decrease in expenditure reimbursements from Forsyth County. The Law Enforcement Forfeiture Fund had an increase in fund balance of \$70,203 or 39.4% due to a payment of forfeitures from federal government. And the Federal Justice Assistance Grant

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Fund had a fund balance increase of 285.2% or \$1,021 due to increases from grants, i.e. ARRA and others.

At June 30, 2011, the governmental funds of the Town reported a combined fund balance of \$11,411,149 or a 1.9% 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 \$715,288 for the fiscal year, primarily due to increased expenditures associated with the following: 1) Fire Department departmental supplies, capital asset improvements workers compensation charges; 2) replacement of a Police Department patrol car vehicle; 3) storm damage at Fourth of July Park, shelter repairs and a tractor; 4) emergency repairs on Oakhurst Street; and 5) winter storm snow removal. The third and final budget amendment did not result in a total net increase in general fund revenues.

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 budget variances are reflected in the property tax collections and in utility franchise revenues. A positive budget variance of \$222,313 or 1.8% occurred with Ad valorem tax collections. A positive budget variance of \$99,125 or 13.2% occurred with the collection of utility franchise revenues. The greatest negative revenue budget variances were the restricted intergovernmental revenues category. This category consists of state, local and federal grants. Actual grant revenues were down a total of \$181,382 or 18.0% below budget primarily due to grant funds not being awarded as anticipated. The net budget variance in the Town's general fund revenue was about 0.6% or \$126,292.

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 Human Resources Department at \$47,605 or 15.1% primarily as a result worker's compensation claims that were not expended. In the Public Safety category, Police, Fire and Inspection Department expenditures had a budget variance of 3.7% or \$473,255. This variance is primarily attributed to the Police and Fire Departments with variances of 3.2% (\$232,309) and 4.8% (\$235,716), respectively. The Public Service expenditure category had a positive variance of \$199,999 or 3.4%. The largest expenditure variances in this category occurred in the Street, Solid Waste and Central Maintenance Departments. The Street Department had a positive variance of \$76,120 or 4.9% primarily due to street testing services not required and services provided by in-house staff. The Solid Waste and Central Maintenance Departments had positive budget variances of 2.9% (\$56,762) and 3.4% (46,592), respectively. The positive variances in the Solid Waste Department were primarily due to salary savings and group insurance and positive variances in the Central Maintenance Department was due to anticipated vehicle repairs that did not occur.

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The cumulative total expenditure variance was positive \$861,001. As such, only \$11,126 of fund balance was actually appropriated, compared to the budgeted amount of \$998,419.

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 Worker's 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 6.8% (\$51,168) to a total of \$808,261

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 decreased 49.5% (\$155,579) to a total of \$158,746. The large decrease was due to unexpected worker's 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, 2011 totals \$131,087,531 (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 \$378,855.

For the fiscal year ended June 30, 2011, major capital asset transactions for governmental activities include the following:

- Acquisition of land and rights-of-way in the amount of \$1,318,776. Of this amount, 100% was donated by developers.
- Infrastructure saw an increase in the amount of \$872,183.
- Equipment and heavy equipment increased in the amount of \$690,099.
- Vehicles for various departments increased in the amount of \$172,754.

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.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
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**CAPITAL ASSETS (Net of Depreciation)
Figure 4**

	Governmental Activities		Business-type Activities		Total 2011	Total 2010
	2011	2010	2011	2010		
Capital assets not being depreciated						
Land	\$ 68,258,257	\$ 66,939,481	\$ -	\$ -	\$ 68,258,257	\$ 66,939,481
Total capital assets not being depreciated	68,258,257	66,939,481	-	-	68,258,257	66,939,481
Capital assets being depreciated						
Buildings and Improvements	5,799,316	6,004,856	-	-	5,799,316	6,004,856
Land improvements	1,515,758	1,586,561	-	-	1,515,758	1,586,561
Infrastructure	51,714,657	52,987,728	123,179	126,609	51,837,836	53,114,337
Equipment and Heavy equipment	2,897,343	2,890,694	226,355	266,870	3,123,698	3,157,564
Vehicles	902,200	1,023,558	29,321	36,823	931,521	1,060,381
	62,829,274	64,493,397	378,855	430,302	63,208,129	64,923,699
	\$ 131,087,531	\$ 131,432,878	\$ 378,855	\$ 430,302	\$ 131,466,386	\$ 131,863,180

Long-Term Debt. As of June 30, 2011 the Town of Kernersville had total bonded debt outstanding of \$5,200,000 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		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	5,200,000	5,600,000	-	-	5,200,000	5,600,000
Revolving Loan payable	5,600,000	6,000,000	-	-	5,600,000	6,000,000
Installment purchases	1,708,517	2,315,253	74,079	109,410	1,782,596	2,424,663
	\$ 12,508,517	\$ 13,915,253	\$ 74,079	\$ 109,410	\$ 12,582,596	\$ 14,024,663

The Town of Kernersville's total debt of both governmental and business-type activities had a net decrease of \$1,442,067 or 10.3% for the fiscal year ended June 30, 2011. The decrease was primarily the result of \$1,288,267 in installment purchase contracts (various equipment) and normal principal retirement. Total debt currently stands at \$12,582,596.

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.

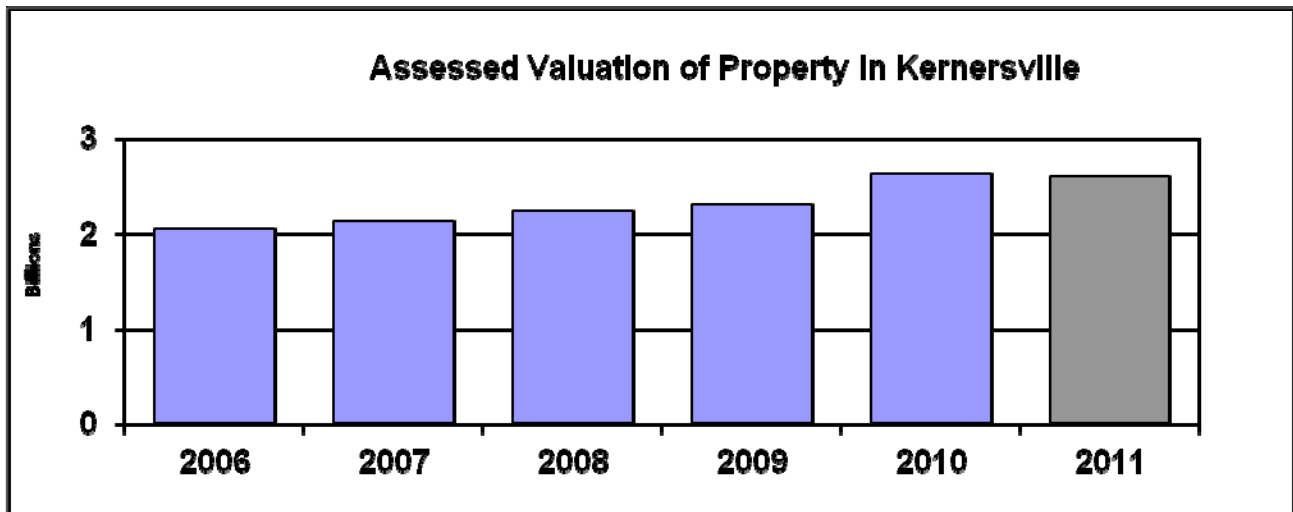
**TOWN OF KERNERSVILLE, NORTH CAROLINA
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North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within the government's boundaries. The legal debt margin for the Town of Kernersville is \$203,544,800. The Town has no authorized but unissued debt at June 30, 2011. Total bonded debt outstanding at the close of this fiscal year was \$5,200,000.

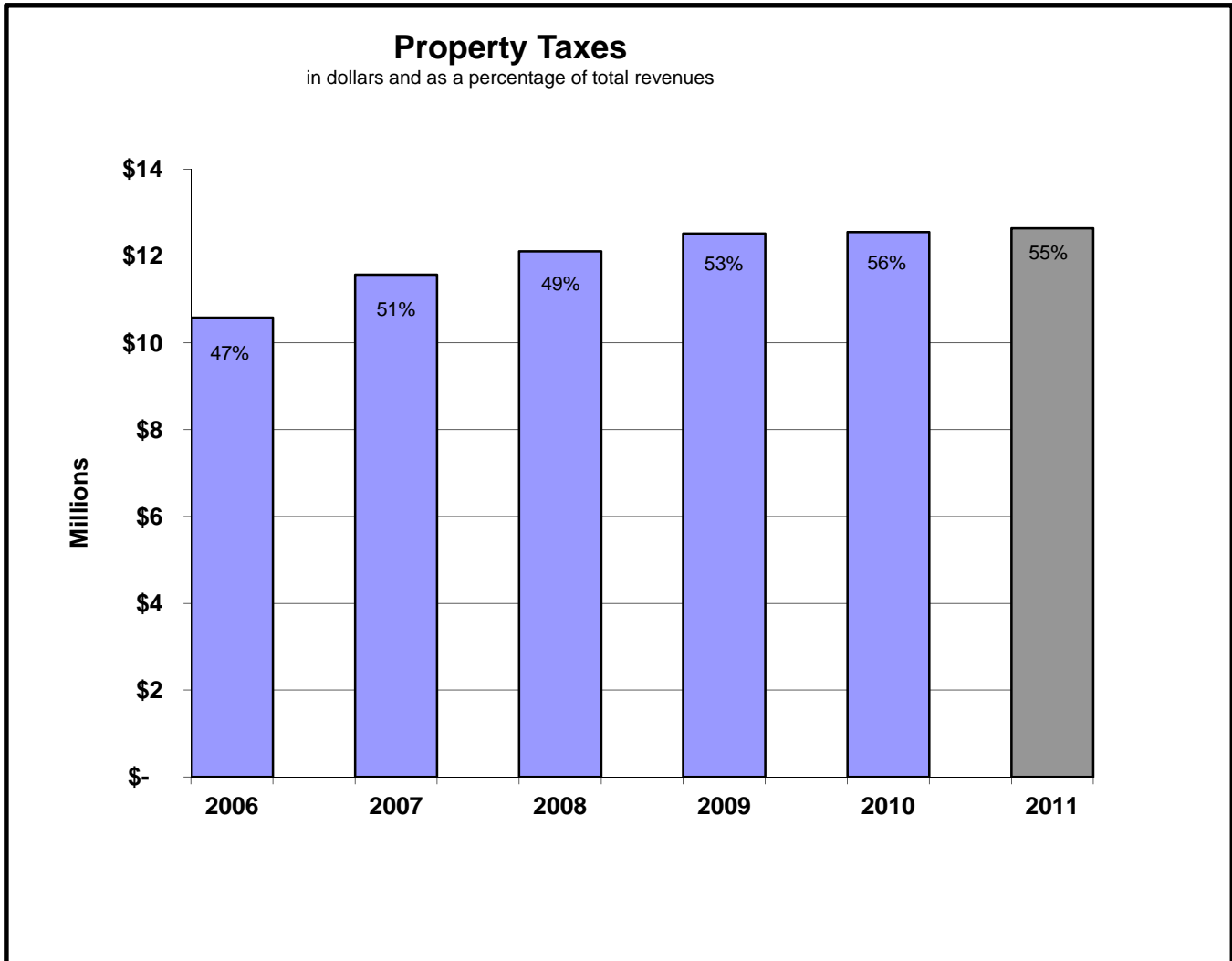
Additional information regarding the Town's long-term debt can be found on Section 2.B.7. of the notes.

Economic Factors and Next Year's Budgets and Rates

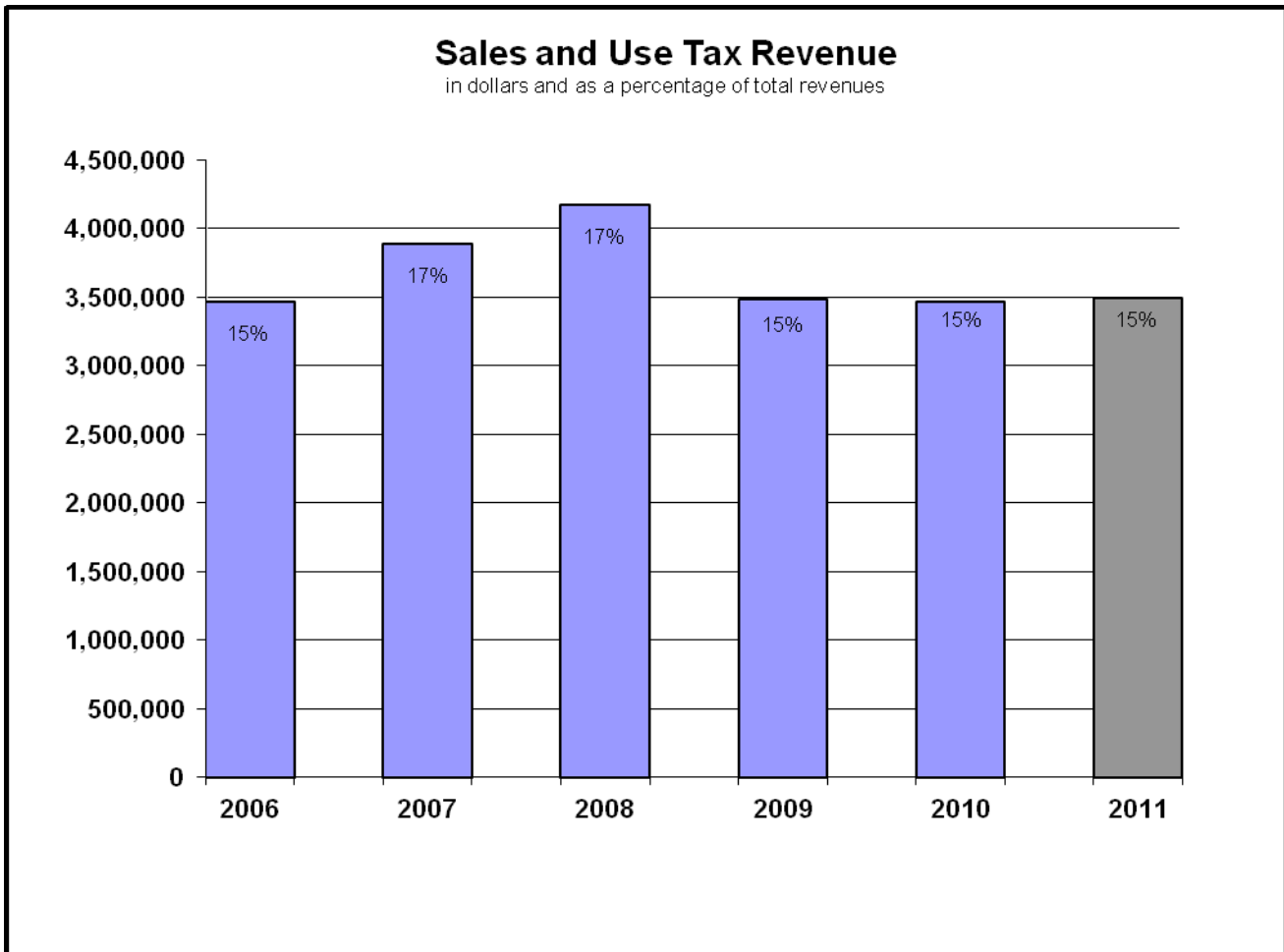
The following key economic information reflects the growth and prosperity in Kernersville:



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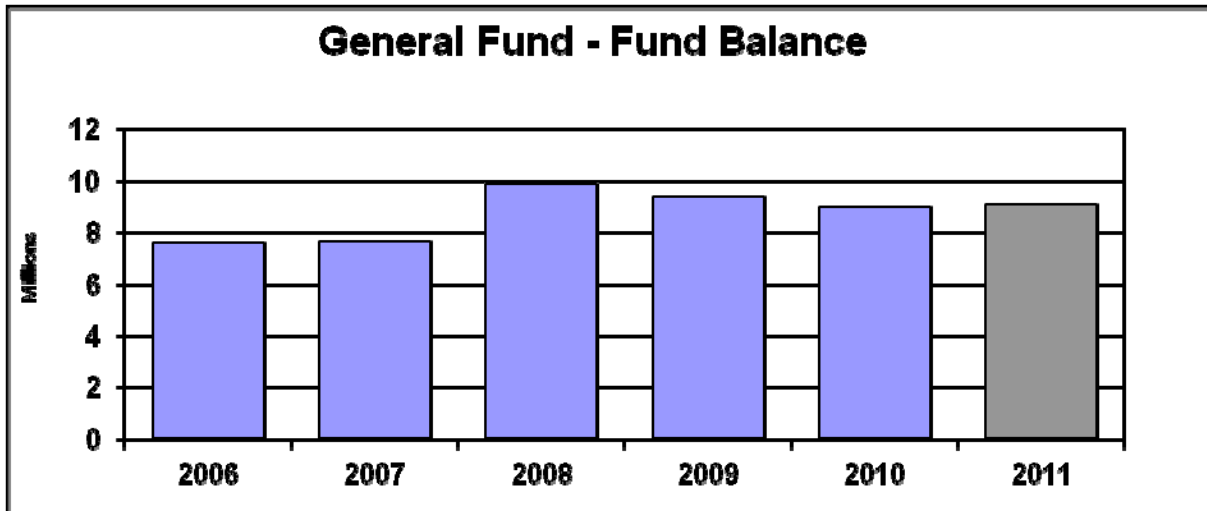


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The preceding graphs show that the Town's largest source of revenue - property taxes - increased steadily from 2006 to 2011. The Town's second largest revenue source - sales and use taxes - increased steadily from 2005 to 2008 with a sharp drop off in 2009. The sales and use tax collected in fiscal year 2010-11 is about the same percentage of total revenues collected compared to fiscal year 2009-10. Most other revenues have remained somewhat stable.

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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 Forsyth County, where Kernersville is located. As of June 30, 2011, the unemployment rate for Forsyth County was 10.1% compared to the State rate of 9.9% 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, 2012

Property taxes, the Town's largest source of revenue, is expected to increase slightly compared to the amount collected in fiscal year 2010-11 as well as Sales and Use Tax revenues. These revenues, among others, are expected to fund programs currently in place and provide including the addition of \$883,000 in equipment purchases which will be financed under North Carolina General statute 160A-20.

For fiscal year ending June 30, 2011, actual expenditures in the General Fund increased \$257,134 over last fiscal year to \$22,504,039. The largest increments are for capital outlay and personnel related costs. Major capital outlay items for fiscal year 2011-12 (all funds) are the following:

Various vehicles and equipment totaling \$883,000.

- Eleven vehicles \$244,000 (Ten patrol cars; one administrative vehicle).
- E911 equipment for \$197,500.
- Accounting software upgrades for \$27,000.
- Gas detection equipment for \$25,000.
- Breathing air cylinders for \$34,000.
- Front-end loader collection truck \$234,799.
- Container set truck for \$88,701.
- Small utility vehicle for \$7,000.

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- Ballfield spray unit for \$25,000

The tax rate for the fiscal year ending June 30, 2011 was \$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 St., P. O. Drawer 728, Kernersville, NC 27285.

BASIC FINANCIAL STATEMENTS

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TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2011

Exhibit 1

ASSETS	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and investments	11,231,258	\$ 542,619	\$ 11,773,877
Prepaid assets	22,917	-	22,917
Receivables:			
Taxes receivable, net	555,046	-	555,046
Accrued interest receivable on taxes	75,952	-	75,952
Accounts receivable, net	141,985	-	141,985
Due from other governments	1,545,400	-	1,545,400
Restricted assets:			
Cash and cash equivalents	27,103	-	27,103
Total current assets	<u>13,599,661</u>	<u>542,619</u>	<u>14,142,280</u>
Noncurrent assets:			
Capital assets:			
Capital assets not depreciated	68,258,257	-	68,258,257
Other capital assets, net of depreciation	62,829,274	378,855	63,208,129
Total noncurrent assets	<u>131,087,531</u>	<u>378,855</u>	<u>131,466,386</u>
Total assets	<u>144,687,192</u>	<u>921,474</u>	<u>145,608,666</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	1,057,338	26,379	1,083,717
Claims and judgments	293,768	-	293,768
Unearned revenues	47,662	-	47,662
Accrued interest payable	100,704	1,586	102,290
Due within one year	2,264,149	48,764	2,312,913
Total current liabilities	<u>3,763,621</u>	<u>76,729</u>	<u>3,840,350</u>
Long-term liabilities:			
Due in more than one year	13,736,889	36,484	13,773,373
Total long-term liabilities	<u>13,736,889</u>	<u>36,484</u>	<u>13,773,373</u>
Total liabilities	<u>17,500,510</u>	<u>113,213</u>	<u>17,613,723</u>
NET ASSETS			
Invested in capital assets, net of related debt	124,206,117	304,776	124,510,893
Restricted for:			
Stabilization by state statute	1,687,385	-	1,687,385
Unrestricted	1,293,180	503,485	1,796,665
Total net assets	<u>\$ 127,186,682</u>	<u>\$ 808,261</u>	<u>\$ 127,994,943</u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 2,851,088	\$ 238,988	\$ 98,604	\$ -	\$ (2,513,496)	\$ -	\$ (2,513,496)
Public safety	11,892,407	234,847	604,707	-	(11,052,853)	-	(11,052,853)
Public service	8,420,247	1,208,031	1,184,778	2,145,173	(3,882,265)	-	(3,882,265)
Culture and recreation	1,455,623	284,283	56	-	(1,171,284)	-	(1,171,284)
Unallocated interest expense	448,776	-	-	-	(448,776)	-	(448,776)
Total governmental activities	<u>25,068,141</u>	<u>1,966,149</u>	<u>1,888,145</u>	<u>2,145,173</u>	<u>(19,068,674)</u>	<u>-</u>	<u>(19,068,674)</u>
Business-type activities:							
Stormwater	615,230	955,981	-	-	-	340,751	340,751
Total business-type activities	<u>615,230</u>	<u>955,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>340,751</u>	<u>340,751</u>
Total government	<u>\$ 25,683,371</u>	<u>\$ 2,922,130</u>	<u>\$ 1,888,145</u>	<u>\$ 2,145,173</u>	<u>(19,068,674)</u>	<u>340,751</u>	<u>(18,727,923)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					12,817,420	-	12,817,420
Other taxes					232,061	-	232,061
Unrestricted intergovernmental revenues					5,993,815	-	5,993,815
Investment earnings, unrestricted					22,952	747	23,699
Transfers					290,330	(290,330)	-
Gain on sale of capital assets					38,642	-	38,642
Miscellaneous					98,367	-	98,367
Total general revenues					<u>19,493,587</u>	<u>(289,583)</u>	<u>19,204,004</u>
Change in net assets					424,913	51,168	476,081
Net assets - beginning					126,761,769	757,093	127,518,862
Net assets - ending					<u>\$ 127,186,682</u>	<u>\$ 808,261</u>	<u>\$ 127,994,943</u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

Exhibit 3

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General Fund	Transportation Capital Projects Ordinance Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents	8,561,882	\$ 1,208,517	\$ 989,576	\$ 10,759,975
Prepaid assets	22,917	-	-	22,917
Taxes receivable, net	555,046	-	-	555,046
Accounts receivable, net	101,396	-	40,589	141,985
Due from other governments	1,459,786	85,614	-	1,545,400
Restricted assets:				
Cash and cash equivalents	27,103	-	-	27,103
Total assets	<u>\$ 10,728,130</u>	<u>\$ 1,294,131</u>	<u>\$ 1,030,165</u>	<u>\$ 13,052,426</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,028,969	\$ -	\$ 9,600	\$ 1,038,569
Unearned revenues	47,662	-	-	47,662
Deferred revenues	555,046	-	-	555,046
Total liabilities	<u>1,631,677</u>	<u>-</u>	<u>9,600</u>	<u>1,641,277</u>
Fund balances:				
Non-spendable				
Prepaid assets	22,917	-	-	22,917
Restricted				
Stabilization by state statute	1,561,182	85,614	40,589	1,687,385
Capital equipment	27,103	-	-	27,103
Tourism	-	-	32,333	32,333
Public safety	-	-	232,797	232,797
Drug education	-	-	37,883	37,883
Committed				
Transportation	-	1,208,517	-	1,208,517
Capital projects	147,933	-	557,534	705,467
Assigned				
Subsequent year's expenditures	302,337	-	119,429	421,766
Unassigned	7,034,981	-	-	7,034,981
Total fund balances	<u>9,096,453</u>	<u>1,294,131</u>	<u>1,020,565</u>	<u>11,411,149</u>
Total liabilities and fund balances	<u>\$ 10,728,130</u>	<u>\$ 1,294,131</u>	<u>\$ 1,030,165</u>	

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.	131,087,531
Other assets are not available to pay for current expenditures and therefore are deferred in the funds (accrued interest receivable from taxes).	75,952
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.	158,746
Liabilities for earned but deferred revenues in fund statements.	555,046
Some liabilities, including long-term debt (\$16,001,038) and accrued interest (\$100,704), are not due and payable in the current period and therefore are not reported in the funds.	<u>(16,101,742)</u>
Net assets of governmental activities	<u>\$ 127,186,682</u>

The accompanying notes are an integral part of this statement.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2011**

**Exhibit 4
Page 1 of 2**

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General Fund	Transportation Capital Projects Ordinance Fund	Other Governmental Funds	
Revenues:				
Ad valorem taxes	\$ 12,642,432	\$ -	\$ -	\$ 12,642,432
Other taxes and licenses	146,919	-	85,142	232,061
Unrestricted intergovernmental	5,993,815	-	-	5,993,815
Restricted intergovernmental	823,938	89,215	173,183	1,086,336
Penalties and interest	86,353	3,440	697	90,490
Contributions and donations	883,787	-	-	883,787
Other general revenues	122,973	-	78,376	201,349
Functionally related revenues	1,894,698	-	-	1,894,698
Total revenues	<u>22,594,915</u>	<u>92,655</u>	<u>337,398</u>	<u>23,024,968</u>
Expenditures:				
Current:				
General government	2,772,127	-	-	2,772,127
Public safety	11,337,038	-	166,464	11,503,502
Public service	5,324,379	700,224	117,741	6,142,344
Culture and recreation	1,209,062	-	49,500	1,258,562
Debt service:				
Principal	1,633,763	400,000	19,173	2,052,936
Interest and other charges	227,670	229,400	1,477	458,547
Total expenditures	<u>22,504,039</u>	<u>1,329,624</u>	<u>354,355</u>	<u>24,188,018</u>
Excess of revenues over (under) expenditures	<u>90,876</u>	<u>(1,236,969)</u>	<u>(16,957)</u>	<u>(1,163,050)</u>
Other financing sources (uses):				
Transfers from other funds	915,408	1,264,798	135,000	2,315,206
Transfers to other funds	(1,515,677)	(470,276)	(38,923)	(2,024,876)
Issuance of debt - installment purchase financing	646,200	-	-	646,200
Total other financing sources (uses)	<u>45,931</u>	<u>794,522</u>	<u>96,077</u>	<u>936,530</u>
Net change in fund balances	136,807	(442,447)	79,120	(226,520)
Fund balances, beginning	<u>8,959,646</u>	<u>1,736,578</u>	<u>941,445</u>	<u>11,637,669</u>
Fund balances, ending	<u>\$ 9,096,453</u>	<u>\$ 1,294,131</u>	<u>\$ 1,020,565</u>	<u>\$ 11,411,149</u>

The accompanying notes are an integral part of this statement.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2011**

Exhibit 4
Page 2 of 2

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities:

Total net change in fund balances - governmental funds \$ (226,520)

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 (\$3,399,159) exceeded capital outlays (\$1,000,053) in the current period. (2,399,106)

The net effect of various miscellaneous transactions involving capital assets is to decrease net assets (2,198)

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	2,055,958
Change in deferred revenues	82,419
Change in accrued interest receivable on property taxes	25,025

The issuance (\$646,200) of long-term debt provides current financial resources to governmental funds, while the repayment (\$2,052,936) 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. 1,406,736

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	382,281
Net pension obligation	(81,786)
Net other postemployment benefit obligation	(672,101)
Change in accrued interest payable	9,784

Net expenditures of internal service funds determined to be governmental-type. (155,579)

Changes in net assets of governmental activities \$ 424,913

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2011

Exhibit 5

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$ 12,420,119	\$ 12,420,119	\$ 12,642,432	\$ 222,313
Other taxes and licenses	111,700	111,700	146,919	35,219
Unrestricted intergovernmental	5,904,213	5,964,683	5,993,815	29,132
Restricted intergovernmental	698,938	1,005,320	823,938	(181,382)
Penalties and interest	35,700	49,700	86,353	36,653
Contributions and donations	815,751	895,751	883,787	(11,964)
Other general revenues	47,500	101,694	122,971	21,277
Functionally related revenues	<u>1,832,454</u>	<u>1,919,654</u>	<u>1,894,698</u>	<u>(24,956)</u>
Total revenues	<u>21,866,375</u>	<u>22,468,621</u>	<u>22,594,913</u>	<u>126,292</u>
Expenditures:				
Current:				
General government	2,919,796	2,918,958	2,787,487	131,471
Public safety	12,327,105	12,745,137	12,271,882	473,255
Public service	5,598,462	5,858,505	5,658,506	199,999
Culture and recreation	1,259,189	1,297,240	1,240,964	56,276
Debt service	<u>545,200</u>	<u>545,200</u>	<u>545,200</u>	<u>-</u>
Total expenditures	<u>22,649,752</u>	<u>23,365,040</u>	<u>22,504,039</u>	<u>861,001</u>
Excess of revenues over (under) expenditures	<u>(783,377)</u>	<u>(896,419)</u>	<u>90,874</u>	<u>987,293</u>
Other financing sources (uses):				
Transfers from other funds	914,307	915,408	915,408	-
Transfers to other funds	(1,477,130)	(1,663,608)	(1,663,608)	-
Installment purchase financing proceeds	<u>646,200</u>	<u>646,200</u>	<u>646,200</u>	<u>-</u>
Total other financing sources (uses)	<u>83,377</u>	<u>(102,000)</u>	<u>(102,000)</u>	<u>-</u>
Excess of revenues and other sources under expenditures and other uses	<u>(700,000)</u>	<u>(998,419)</u>	<u>(11,126)</u>	<u>987,293</u>
Fund balance appropriated	<u>700,000</u>	<u>998,419</u>	<u>-</u>	<u>(998,419)</u>
Excess of revenues, other sources and fund balance appropriated under expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>(11,126)</u>	<u>\$ (11,126)</u>
Fund balance, beginning			<u>8,959,646</u>	
Fund balance, ending			8,948,520	
A legally budgeted capital reserve fund is consolidated into the General Fund for reporting purposes:				
Interest income			2	
Transfer from the General Fund			<u>147,931</u>	
Fund balance, ending (Exhibit 4)			<u>\$ 9,096,453</u>	

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

Exhibit 6

ASSETS	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Current assets:		
Cash and cash equivalents	\$ 542,619	\$ 471,283
Total current assets	<u>542,619</u>	<u>471,283</u>
Noncurrent assets:		
Other capital assets, net	<u>378,855</u>	<u>-</u>
Total noncurrent assets	<u>378,855</u>	<u>-</u>
Total assets	<u>\$ 921,474</u>	<u>\$ 471,283</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 26,379	\$ 18,769
Claims and judgments	-	293,768
Accrued interest payable	1,586	-
Current maturities of long-term debt	<u>48,764</u>	<u>-</u>
Total current liabilities	<u>76,729</u>	<u>312,537</u>
Noncurrent liabilities:		
Noncurrent portion of long-term debt	<u>36,484</u>	<u>-</u>
Total noncurrent liabilities	<u>36,484</u>	<u>-</u>
Total liabilities	<u>113,213</u>	<u>312,537</u>
Net assets:		
Investment in capital assets, net of related debt	304,776	-
Unrestricted	<u>503,485</u>	<u>158,746</u>
Total net assets	<u>808,261</u>	<u>158,746</u>
Total liabilities and net assets	<u>\$ 921,474</u>	<u>\$ 471,283</u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2011

Exhibit 7

	Enterprise Fund	Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 955,981	\$ 281,820
TOTAL OPERATING REVENUES	955,981	281,820
OPERATING EXPENSES		
Personnel services	265,231	-
Depreciation	51,447	-
Other current charges	295,819	-
Claims	-	403,195
Stop-loss coverage	-	26,800
Administration	-	7,500
TOTAL OPERATING EXPENSES	612,497	437,495
OPERATING INCOME (LOSS)	343,484	(155,675)
NON OPERATING REVENUES (EXPENSES)		
Investment earnings	747	96
Interest and fees	(2,733)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,986)	96
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	341,498	(155,579)
CONTRIBUTIONS AND TRANSFERS		
Transfers from other funds	250,879	-
Transfers to other funds	(541,209)	-
CHANGE IN NET ASSETS	51,168	(155,579)
TOTAL NET ASSETS, BEGINNING OF YEAR	757,093	314,325
TOTAL NET ASSETS, END OF YEAR	\$ 808,261	\$ 158,746

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2011

Exhibit 8

	Enterprise Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 955,981	\$ -
Cash paid for goods and services	(291,818)	(26,800)
Cash paid to employees	(261,479)	-
Receipts from other funds	-	281,820
Payment of claims	-	(190,658)
Payment of fee to administrator	-	(7,500)
	<u>402,684</u>	<u>56,862</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers out to other funds	250,879	-
Transfers in from other funds	(541,209)	-
	<u>(290,330)</u>	<u>-</u>
NET CASH USED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on installment debt	(35,331)	-
Interest paid on installment debt	(3,490)	-
	<u>(38,821)</u>	<u>-</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	747	96
	<u>747</u>	<u>96</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	74,280	56,958
CASH AND CASH EQUIVALENTS, BEGINNING	<u>468,339</u>	<u>414,325</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 542,619</u>	<u>\$ 471,283</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 343,484	\$ (155,675)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	51,447	-
Change in assets and liabilities:		
Increase in account payable and accrued liabilities	4,001	18,769
Increase in claims and judgments	-	193,768
Increase in accrued vacation pay	3,752	-
	<u>3,752</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 402,684</u>	<u>\$ 56,862</u>

The accompanying notes are an integral part of this statement.

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TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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

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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The Town reports the following major governmental funds:

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.

Transportation Capital Projects Ordinance Fund - The Transportation Capital Projects Ordinance Fund accounts for the financial resources to be used for various major street construction and improvement 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 regards to environmental stewardship.

The Town reports the following non-major 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 one non-major Capital Project fund. 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Additionally, the Town reports the following non-major 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.

C. Measurement Focus and Basis of Accounting

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

Government-Wide 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and 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 2010 through February 2011 apply to the fiscal year ended June 30, 2011. 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Special Revenue Funds. All annual appropriations lapse at the fiscal year end. All budgets are prepared using the modified accrual basis of accounting. 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.

E. 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

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

3. 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, 2010. 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.

4. 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.

5. 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.

6. Restricted Assets

The unexpended proceeds from installment purchase agreements in the amount of \$27,103 are classified as restricted assets because their use is completely restricted to the purpose for which the installment purchase agreements were issued.

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 are not capitalized.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

E. 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

E. 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 are 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

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

10. Net Assets/Fund Balances (Continued)

Fund Balances (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. Any changes or removal of specific purposes requires majority action by the governing body.

Committed for Transportation - portion of fund balance that is set aside by the Board for transportation projects.

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.

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 lastly 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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 non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for 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, 2011, the Town's deposits had a carrying amount of \$6,917,963 and a bank balance of \$7,573,848. Of the bank balance, \$1,002,103 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2011, the Town's petty cash fund totaled \$4,300.

2. Investments

At June 30, 2011, the Town had \$4,878,717 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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:

	<u>Governmental Activities</u>
General Fund	
Sales and use tax distribution	\$ 899,957
Utilities franchise, video programming, solid waste, and telecommunications tax	330,061
Property tax collections due from Forsyth County	48,337
Alcohol beverage tax	40,368
Sales tax refunds	130,274
Grants	4,946
Transportation Capital Project Ordinance Fund grants	<u>85,614</u>
	<u>\$ 1,545,400</u>

4. Receivables - Allowance for Doubtful Accounts

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

	<u>June 30, 2011</u>
General Fund	
Taxes receivable	<u>\$ 73,000</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 66,939,481	\$ 1,318,776	\$ -	\$ 68,258,257
Capital assets being depreciated:				
Buildings and improvements	10,430,518	\$ -	\$ -	10,430,518
Land improvements	2,687,031	-	-	2,687,031
Infrastructure	84,870,196	872,183	-	85,742,379
Equipment and heavy equipment	10,368,390	690,099	(450,059)	10,608,430
Vehicles	<u>3,293,488</u>	<u>172,754</u>	<u>(181,037)</u>	<u>3,285,205</u>
Total capital assets being depreciated	<u>111,649,623</u>	<u>\$ 1,735,036</u>	<u>\$ (631,096)</u>	<u>112,753,563</u>
Less accumulated depreciation for:				
Buildings and improvements	4,425,662	\$ 205,540	\$ -	4,631,202
Land improvements	1,100,470	107,487	(36,684)	1,171,273
Infrastructure	31,882,468	2,108,570	36,684	34,027,722
Equipment and heavy equipment	7,477,696	683,450	(450,059)	7,711,087
Vehicles	<u>2,269,930</u>	<u>294,112</u>	<u>(181,037)</u>	<u>2,383,005</u>
Total accumulated depreciation	<u>47,156,226</u>	<u>\$ 3,399,159</u>	<u>\$ (631,096)</u>	<u>49,924,289</u>
Total capital assets being depreciated, net	<u>64,493,397</u>			<u>62,829,274</u>
Governmental activity capital assets, net	<u>\$ 131,432,878</u>			<u>\$ 131,087,531</u>

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

General government	\$ 111,545
Public safety	662,702
Public service	2,395,451
Culture and recreation	<u>229,461</u>
Total governmental activities	<u>\$ 3,399,159</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets being depreciated:				
Infrastructure	\$ 137,185	\$ -	\$ -	\$ 137,185
Equipment and heavy equipment	405,152	-	-	405,152
Vehicles	<u>68,930</u>	<u>-</u>	<u>-</u>	<u>68,930</u>
Total capital assets being depreciated	<u>611,267</u>	<u>\$ -</u>	<u>\$ -</u>	<u>611,267</u>
Less accumulated depreciation for:				
Infrastructure	10,576	\$ 3,430	\$ -	14,006
Equipment and heavy equipment	138,282	40,515	-	178,797
Vehicles	<u>32,107</u>	<u>7,502</u>	<u>-</u>	<u>39,609</u>
Total accumulated depreciation	<u>180,965</u>	<u>\$ 51,447</u>	<u>\$ -</u>	<u>232,412</u>
Total capital assets being depreciated, net	<u>430,302</u>			<u>378,855</u>
Business-type activity capital assets, net	<u>\$ 430,302</u>			<u>\$ 378,855</u>

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

Stormwater	<u>\$ 51,447</u>
Total business-type activities	<u>\$ 51,447</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities

1. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Governmental Activities	Business- Type Activities	Total
Payable to vendors and others	\$ 728,929	\$ 15,323	\$ 744,252
Accrued payroll and related liabilities	328,409	11,056	339,465
Total accounts payable and accrued liabilities	\$ 1,057,338	\$ 26,379	\$ 1,083,717

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 6.35% and 6.41%, 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, 2011, 2010 and 2009 were \$678,490, \$583,089 and \$503,913, respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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, 2011 were \$368,047, which consisted of \$149,753 from the Town and \$218,294 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 .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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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, 2010, 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, 2010 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, 2010 was 20 years.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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	\$ 151,644
Interest on net pension obligation	35,810
Adjustment to annual required contribution	<u>(38,343)</u>
Annual pension cost	149,111
Contributions made	<u>(67,325)</u>
Increase in net pension obligation	81,786
Net pension obligation, beginning of year	<u>716,205</u>
Net pension obligation, end of year	<u>\$ 797,991</u>

Funded Status and Funding Process: As of December 31, 2010, 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 \$1,397,452. The covered payroll (annual payroll of active employees covered by the plan) was \$2,962,131, and the ratio of the UAAL to the covered payroll was 47.18%.

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

Three-Year Trend Information:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/09	\$ 99,612	11.18%	\$ 651,364
6/30/10	113,892	43.07%	716,205
6/30/11	149,111	45.15%	797,991

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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:

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

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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 \$972 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 8.1% of annual covered payroll. For the current year, the Town contributed \$103,673 or 0.97% 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 \$16,658. The Town's obligation to contribute to 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 thirty 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:

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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	\$ 773,399
Interest on net OPEB obligation	53,118
Adjustment to annual required contribution	<u>(50,744)</u>
Annual OPEB cost (expense)	775,773
Contributions made	<u>(103,673)</u>
Increase in net OPEB obligation	672,100
Net OPEB obligation, beginning of year	<u>1,327,954</u>
 Net OPEB obligation, end of year	 <u>\$ 2,000,054</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 were as follows:

<u>For Year Ended</u> <u>June 30</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2009	\$ 726,771	9.0%	\$ 661,340
2010	745,445	9.5%	1,327,954
2011	775,773	13.3%	2,000,054

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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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, 2011, the Town made contributions to the state for death benefits of \$4,343. 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 post-employment 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:

	<u>Deferred Revenues</u>	<u>Unearned Revenues</u>
Taxes receivable	\$ 555,046	\$ -
Advance rent payments received	<u>-</u>	<u>47,662</u>
Total	<u>\$ 555,046</u>	<u>\$ 47,662</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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 are 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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,	
	2011	2010
Unpaid claims, beginning of fiscal year	\$ 100,000	\$ 50,000
Incurred claims (including IBNRs)	403,195	77,039
Increase in claims reserve	193,768	50,000
Claim payments	(403,195)	(77,039)
Unpaid claims, end of fiscal year	\$ 293,768	\$ 100,000

6. Claims and Judgments

At June 30, 2011, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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, 2011 are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Governmental</u>	<u>Business-</u> <u>Type</u>
2012	\$ 835,539	\$ 38,818
2013	435,696	38,818
2014	310,499	-
2015	<u>226,546</u>	<u>-</u>
Total minimum payments	1,808,280	77,636
Less amount representing interest	<u>99,763</u>	<u>3,557</u>
Present value of installment purchase payments	<u>\$ 1,708,517</u>	<u>\$ 74,079</u>

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. The Transportation Capital Projects Ordinance Fund currently services this general obligation bond issue. The Town anticipates servicing this debt by the General Fund in future years.

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, 2011 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.	<u>\$ 5,200,000</u>
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TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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
2012	\$ 400,000	\$ 213,400	\$ 613,400
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
Next 5 years	2,000,000	519,800	2,519,800
Next 3 years	<u>1,200,000</u>	<u>108,800</u>	<u>1,308,800</u>
	<u>\$ 5,200,000</u>	<u>\$ 1,537,000</u>	<u>\$ 6,737,000</u>

The Town's legal debt margin at June 30, 2011 was \$203,544,800.

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, 2011. The total amount outstanding at June 30, 2011 was \$5,600,000.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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
2012	\$ 400,000	\$ 135,520	\$ 535,520
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
Next 5 years	2,000,000	338,800	2,338,800
Next 2 years	1,600,000	96,800	1,696,800
	<u>\$ 5,600,000</u>	<u>\$ 1,016,400</u>	<u>\$ 6,616,400</u>

d. Changes in Long-Term Obligations

During the year ended June 30, 2011, the following changes occurred in long-term obligations:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion of Balance
Governmental activities:					
General obligation bonds	\$ 5,600,000	\$ -	\$ (400,000)	\$ 5,200,000	\$ 400,000
Revolving loan payable	6,000,000	-	(400,000)	5,600,000	400,000
Installment purchases	2,315,253	646,200	(1,252,936)	1,708,517	835,539
Compensated absences	1,076,757	246,329	(628,610)	694,476	628,610
Net pension obligation	716,205	149,111	(67,325)	797,991	-
Net OPEB obligation	1,327,954	775,773	(103,673)	2,000,054	-
	<u>\$ 17,036,169</u>	<u>\$ 1,817,413</u>	<u>\$ (2,852,544)</u>	<u>\$ 16,001,038</u>	<u>\$ 2,264,149</u>
Business-type activities:					
Installment purchases	\$ 109,410	\$ -	\$ (35,331)	\$ 74,079	\$ 38,818
Compensated absences	7,417	13,699	(9,947)	11,169	9,946
	<u>\$ 116,827</u>	<u>\$ 13,699</u>	<u>\$ (45,278)</u>	<u>\$ 85,248</u>	<u>\$ 48,764</u>

Compensated absences have typically been liquidated in the General Fund.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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, 2011 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, 2011 is as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Amount</u>
2012	\$ 60,000
2013	60,000
2014	60,000
2015	<u>10,000</u>
Total	<u>\$ 190,000</u>

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2011 consist of the following:

From the General Fund to the Transportation Capital Projects Ordinance Fund for capital projects expenditures.	\$ 1,264,798
From the General Fund to the Storm Water Enterprise Fund for capital expenditures.	250,879
From the Enterprise Fund to the General Fund for a final reimbursement for start-up costs and expenses related to Street Department and Sanitation Department.	406,209
From the Enterprise Fund to the Public Works Facility Capital Projects Ordinance Fund for its portion of construction costs.	135,000
From the Transportation Capital Projects Fund to the General Fund for labor costs associated with Street Projects.	470,276
From the Nonmajor Governmental Funds to the General Fund for (1) a \$1,100 transfer from Law Enforcement Forfeitures Fund to provide working capital, and (2) a \$37,823 transfer from the Occupancy Tax Fund to provide working capital.	<u>38,923</u>
	<u>\$ 2,566,085</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

Note 2. Detail Notes on All Funds (Continued)

D. Total fund balance - General Fund	\$ 9,096,453
Less:	
Prepaid assets	22,917
Stabilization by state statute	1,561,182
Capital equipment	27,103
Capital projects	147,933
Appropriated fund balance in 2012 budget	302,337
Working capital / fund balance policy	5,401,730
Remaining fund balance	1,633,251

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 5 (budgetary basis). These differences relate to installment purchase transactions and the water/sewer bond indebtedness and are summarized below:

	<u>Exhibit 4</u>	<u>Increase (Decrease)</u>		<u>Exhibit 5</u>
General government	\$ 2,772,127	\$ 15,360 (1)		\$ 2,787,487
Public safety	11,337,038	934,844 (1)		12,271,882
Public service	5,324,379	334,127 (1)		5,658,506
Culture and recreation	1,209,062	31,902 (1)		1,240,964
Debt service	-	545,200 (1)		545,200
Principal retirement	1,633,763	(1,633,763) (1)		-
Interest and fiscal charges	227,670	(227,670) (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, 2011.

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 \$204,960 during the fiscal year ended June 30, 2011.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2011

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.

Note 6. Significant Effects of Subsequent Events

Subsequent to year end, the Town entered into an installment financing contract in September 2011. The contract totaled \$883,000 and will be used to finance approved purchases of property and equipment. The installment financing agreement is expected to be paid over a period of four years.

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 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 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)
12/31/01	\$ -	\$ 443,144	\$ 443,144	0.00%	\$ 1,718,087	25.79%
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%

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

Exhibit A-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Annual Percentage Contributed</u>
2002	\$ 47,362	18.65%
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%

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 closed
Remaining amortization period	20 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**

Exhibit B-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Annual Percentage Contributed</u>
2009	\$ 726,771	9.00%
2010	\$ 745,445	9.50%
2011	\$ 775,773	13.30%

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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COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011

Schedule 1
Page 1 of 5

	2011		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
General revenues:			
Ad valorem taxes:			
Current	\$ 12,270,119	\$ 12,455,507	\$ 185,388
Prior	150,000	186,925	36,925
	<u>12,420,119</u>	<u>12,642,432</u>	<u>222,313</u>
Other taxes and licenses:			
Local vehicle fees tax	69,700	96,921	27,221
Cablevision fees	42,000	49,998	7,998
	<u>111,700</u>	<u>146,919</u>	<u>35,219</u>
Unrestricted intergovernmental:			
Solid waste disposal tax	15,700	15,589	(111)
Utility franchise	753,000	852,125	99,125
Telecommunications tax	309,500	276,877	(32,623)
Alcohol beverage tax	343,700	306,317	(37,383)
Hold harmless distribution	754,970	754,970	-
Local option sales and use tax	3,464,313	3,490,607	26,294
Rental vehicle fees	14,000	19,749	5,749
Video programming	309,500	277,581	(31,919)
	<u>5,964,683</u>	<u>5,993,815</u>	<u>29,132</u>
Restricted intergovernmental:			
Powell Bill	593,378	593,378	-
Governor's Crime Commission Grant	161,213	80,921	(80,292)
State Department of Pollution Grant	113,063	39,463	(73,600)
State Transportation grants	39,000	20,000	(19,000)
Local grants	28,462	7,122	(21,340)
Homeland Security Grant	70,204	83,054	12,850
	<u>1,005,320</u>	<u>823,938</u>	<u>(181,382)</u>
Penalties and interest:			
Penalties and interest	14,000	67,544	53,544
Interest on investments	35,700	18,809	(16,891)
	<u>49,700</u>	<u>86,353</u>	<u>36,653</u>
Contributions and donations	<u>895,751</u>	<u>883,787</u>	<u>(11,964)</u>
Other general revenues:			
Other	<u>101,694</u>	<u>122,971</u>	<u>21,277</u>
Total general revenues	<u>20,548,967</u>	<u>20,700,215</u>	<u>151,248</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011**

Schedule 1
Page 2 of 5

	2011		Variance Positive (Negative)
	Budget	Actual	
Functionally related revenues:			
Use and rental fees:			
Recreation revenue	\$ 258,900	\$ 207,882	\$ (51,018)
Parking fines	1,000	297	(703)
Court facility fees	23,000	17,618	(5,382)
Rent on town property	287,041	290,883	3,842
Building inspections	174,343	175,357	1,014
Zoning fees	22,000	24,377	2,377
Recycling revenue	200,880	205,167	4,287
Street lighting reimbursements	5,364	5,364	-
Commercial industrial collection fees	693,600	647,383	(46,217)
Other functionally related fees	253,526	320,370	66,844
	<u>1,919,654</u>	<u>1,894,698</u>	<u>(24,956)</u>
Total functionally related revenues			
	<u>22,468,621</u>	<u>22,594,913</u>	<u>126,292</u>
Total revenues			
Expenditures:			
Current:			
General government:			
Governing body:			
Personnel services		30,555	
Other services and charges		321,082	
Elections		21,758	
Capital outlay		3,515	
	<u>394,893</u>	<u>376,910</u>	<u>17,983</u>
Administrative:			
Personnel services		245,212	
Other services and charges		14,120	
	<u>259,370</u>	<u>259,332</u>	<u>38</u>
Finance:			
Personnel services		390,594	
Other services and charges		284,103	
		4,700	
	<u>701,912</u>	<u>679,397</u>	<u>22,515</u>
Information technology:			
Personnel services		216,846	
Other services and charges		98,895	
Capital outlay		16,000	
Installment purchase agreement payments		78,596	
	<u>414,097</u>	<u>410,337</u>	<u>3,760</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011**

Schedule 1
Page 3 of 5

	2011		Variance Positive (Negative)
	Budget	Actual	
Planning and zoning:			
Personnel services	\$	\$ 289,143	\$
Other services and charges		25,073	
	<u>327,098</u>	<u>314,216</u>	<u>12,882</u>
Personnel:			
Personnel services		375,874	
Other services and charges		98,768	
Capital outlay		2,350	
Installment purchase agreement payments		1,671	
	<u>505,351</u>	<u>478,663</u>	<u>26,688</u>
General services:			
Personnel services		74,128	
Other services and charges		194,504	
	<u>316,237</u>	<u>268,632</u>	<u>47,605</u>
Total general government	<u>2,918,958</u>	<u>2,787,487</u>	<u>131,471</u>
Public safety:			
Police department:			
Personnel services		5,295,415	
Other services and charges		627,192	
Capital outlay		594,356	
Installment purchase agreement payments		620,820	
	<u>7,370,092</u>	<u>7,137,783</u>	<u>232,309</u>
Fire department:			
Personnel services		3,876,464	
Other services and charges		454,947	
Capital outlay		113,246	
Installment purchase agreement payments		253,611	
	<u>4,933,984</u>	<u>4,698,268</u>	<u>235,716</u>
Inspections:			
Personnel services		387,170	
Other services and charges		45,106	
Installment purchase agreement payments		3,555	
	<u>441,061</u>	<u>435,831</u>	<u>5,230</u>
Total public safety	<u>12,745,137</u>	<u>12,271,882</u>	<u>473,255</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011**

	2011		Variance Positive (Negative)
	Budget	Actual	
Public service:			
Engineering department:			
Personnel services	\$	\$ 175,410	\$
Other services and charges		70,292	
Installment purchase agreement payments		5,669	
	<u>268,576</u>	<u>251,371</u>	<u>17,205</u>
Street department:			
Personnel services		737,760	
Other services and charges		615,179	
Other street and sidewalk improvements		15,298	
Capital outlay		13,750	
Installment purchase agreement payments		82,514	
	<u>1,540,621</u>	<u>1,464,501</u>	<u>76,120</u>
Transportation department:			
Personnel services		392,099	
Other services and charges		21,776	
Installment purchase agreement payments		3,614	
	<u>419,051</u>	<u>417,489</u>	<u>1,562</u>
Sanitation department:			
Personnel services		1,009,086	
Other services and charges		641,659	
Installment purchase agreement payments		233,215	
	<u>1,940,722</u>	<u>1,883,960</u>	<u>56,762</u>
Public works administration:			
Personnel services		281,214	
Other services and charges		34,432	
	<u>317,404</u>	<u>315,646</u>	<u>1,758</u>
Central maintenance:			
Personnel services		483,595	
Other services and charges		832,905	
Installment purchase agreement payments		9,039	
	<u>1,372,131</u>	<u>1,325,539</u>	<u>46,592</u>
Total public service	<u>5,858,505</u>	<u>5,658,506</u>	<u>199,999</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011**

Schedule 1
Page 5 of 5

	2011		Variance Positive (Negative)
	Budget	Actual	
Culture and recreation:			
Recreation department:			
Personnel services	\$	\$ 539,989	\$
Other services and charges		505,885	
Capital outlay		42,684	
Installment purchase agreement payments		91,898	
	<u>1,216,377</u>	<u>1,180,456</u>	<u>35,921</u>
Paddison Library:			
Other services and charges		60,508	
	<u>80,863</u>	<u>60,508</u>	<u>20,355</u>
Total culture and recreation	<u>1,297,240</u>	<u>1,240,964</u>	<u>56,276</u>
Debt service:			
Principal retirement	400,000	400,000	-
Interest and fiscal charges	145,200	145,200	-
Total debt service	<u>545,200</u>	<u>545,200</u>	<u>-</u>
Total expenditures	<u>23,365,040</u>	<u>22,504,039</u>	<u>861,001</u>
Excess of revenues over (under) expenditures	<u>(896,419)</u>	<u>90,874</u>	<u>987,293</u>
Other financing sources (uses):			
Transfers in (out):			
From Occupancy Tax Fund	38,923	38,923	-
From Transportation Capital Projects Ordinance Fund	470,276	470,276	-
From Storm Water	406,209	406,209	-
To Transportation Capital Projects Ordinance Fund	(1,264,798)	(1,264,798)	-
To Stormwater Fund	(250,879)	(250,879)	-
To Capital Reserve Fund	(147,931)	(147,931)	-
Installment purchase financing proceeds	646,200	646,200	-
Total other financing uses	<u>(102,000)</u>	<u>(102,000)</u>	<u>-</u>
Excess of revenues and other sources under expenditures and other uses	(998,419)	(11,126)	987,293
Appropriated fund balance	998,419	-	(998,419)
Excess of revenues, other sources and appropriated fund balance under expenditures and other uses	<u>\$ -</u>	<u>(11,126)</u>	<u>\$ (11,126)</u>
Fund balance, beginning		8,959,646	
Fund balance, ending		<u>\$ 8,948,520</u>	

TOWN OF KERNERSVILLE, NORTH CAROLINA
CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011

Schedule 2

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Investment earnings	\$ -	\$ -	\$ 2	\$ 2
Expenditures:				
Capital reserve expenditures	-	147,931	-	(147,931)
Excess of revenues over (under) expenditures	-	(147,931)	2	147,933
Other financing sources:				
Transfers in:				
General Fund	-	147,931	147,931	-
Excess of revenues over expenditures and other sources	<u>\$ -</u>	<u>\$ -</u>	147,933	<u>\$ 147,933</u>
Fund balance, July 1			-	
Fund balance, June 30			<u>\$ 147,933</u>	

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, 2011

Schedule 3

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental	\$ 9,120,382	\$ 5,000,406	\$ 89,215	\$ 5,089,621	\$ (4,030,761)
Other general revenues:					
Interest on investments	658,700	601,045	3,440	604,485	(54,215)
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	6,610,973	92,655	6,703,628	(4,407,937)
Expenditures:					
Public service:					
Street department:					
Other services and charges		5,060,711	124,684	5,185,395	
Other improvements		2,104,217	-	2,104,217	
Capital Improvements		9,221,734	575,540	9,797,274	
Debt service:					
Principal retirement		2,285,085	400,000	2,685,085	
Interest and fiscal charges		1,871,366	229,400	2,100,766	
Total expenditures	28,743,798	20,543,113	1,329,624	21,872,737	6,871,061
Excess of revenues under expenditures	(17,632,233)	(13,932,140)	(1,236,969)	(15,169,109)	2,463,124
Other financing sources (uses):					
Transfers in:					
General Fund	10,403,982	9,139,184	1,264,798	10,403,982	-
Transfers out:					
General Fund	(940,742)	(470,466)	(470,276)	(940,742)	-
Proceeds from bonds	7,000,000	7,000,000	-	7,000,000	-
Total other financing sources	16,463,240	15,668,718	794,522	16,463,240	-
Excess of revenues and other sources over (under) expenditures	(1,168,993)	1,736,578	(442,447)	1,294,131	2,463,124
Appropriated fund balance	1,168,993	-	-	-	(1,168,993)
Excess of revenues, other sources appropriated fund balance over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 1,736,578</u>	(442,447)	<u>\$ 1,294,131</u>	<u>\$ 1,294,131</u>
Fund balance, beginning			1,736,578		
Fund balance, ending			<u>\$ 1,294,131</u>		

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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.

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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

Schedule 4

	Nonmajor Special Revenue Funds		
ASSETS	Occupancy Tax Fund	Emergency Telephone System Fund	Contributions Fund
Cash and investments	\$ 32,333	\$ 100,326	\$ 39,883
Accounts receivable	8,828	31,761	-
Total assets	\$ 41,161	\$ 132,087	\$ 39,883
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Total liabilities	-	-	-
Fund balances:			
Restricted			
Stabilization by state statute	8,828	31,761	-
Tourism	32,333	-	-
Public safety	-	54,503	-
Drug education	-	-	37,883
Committed			
Capital projects	-	-	-
Assigned			
Subsequent year's expenditures	-	45,823	2,000
Total fund balances	41,161	132,087	39,883
Total liabilities and fund balances	\$ 41,161	\$ 132,087	\$ 39,883

<u>Nonmajor Special Revenue Funds</u>		<u>Nonmajor Capital Project Funds</u>	
<u>Law Enforcement Forfeitures Fund</u>	<u>Federal Justice Assistance Grant Fund</u>	<u>Public Works Facility Capital Projects Ordinance Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 248,521	\$ 1,379	\$ 567,134	\$ 989,576
-	-	-	40,589
<u>\$ 248,521</u>	<u>\$ 1,379</u>	<u>\$ 567,134</u>	<u>\$ 1,030,165</u>
\$ -	\$ -	\$ 9,600	\$ 9,600
-	-	-	-
<u>-</u>	<u>-</u>	<u>9,600</u>	<u>9,600</u>
-	-	-	40,589
-	-	-	32,333
178,294	-	-	232,797
-	-	-	37,883
-	-	557,534	557,534
<u>70,227</u>	<u>1,379</u>	<u>-</u>	<u>119,429</u>
<u>248,521</u>	<u>1,379</u>	<u>557,534</u>	<u>1,020,565</u>
<u>\$ 248,521</u>	<u>\$ 1,379</u>	<u>\$ 567,134</u>	<u>\$ 1,030,165</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
COMBINING SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2011

Schedule 5

	<u>Nonmajor Special Revenue Funds</u>		
	<u>Occupancy Tax Fund</u>	<u>Emergency Telephone System Fund</u>	<u>Contributions Fund</u>
Revenues:			
Other taxes and licenses	\$ 85,142	\$ -	\$ -
Restricted intergovernmental	-	-	-
Investment earnings	56	58	24
Miscellaneous	-	71,231	7,145
Total revenues	<u>85,198</u>	<u>71,289</u>	<u>7,169</u>
Expenditures:			
Public safety	-	60,664	4,905
Public service	-	-	-
Culture and recreation	49,500	-	-
Debt service:			
Principal	-	19,173	-
Interest and other charges	-	1,477	-
Total expenditures	<u>49,500</u>	<u>81,314</u>	<u>4,905</u>
Excess of revenues over (under) expenditures	<u>35,698</u>	<u>(10,025)</u>	<u>2,264</u>
Other financing sources (uses):			
Transfers in:			
From other funds	-	-	-
Transfers out:			
General Fund	<u>(37,823)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(37,823)</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	(2,125)	(10,025)	2,264
Fund balances:			
Beginning of year, July 1	<u>43,286</u>	<u>142,112</u>	<u>37,619</u>
End of year, June 30	<u>\$ 41,161</u>	<u>\$ 132,087</u>	<u>\$ 39,883</u>

<u>Nonmajor Special Revenue Funds</u>		<u>Nonmajor Capital Project Fund Public Works Facility Capital Projects Ordinance Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Law Enforcement Forfeitures Fund</u>	<u>Federal Justice Assistance Grant Fund</u>		
\$ -	\$ -	\$ -	\$ 85,142
153,345	19,838	-	173,183
36	-	523	697
-	-	-	78,376
<u>153,381</u>	<u>19,838</u>	<u>523</u>	<u>337,398</u>
82,078	18,817	-	166,464
-	-	117,741	117,741
-	-	-	49,500
-	-	-	19,173
-	-	-	1,477
<u>82,078</u>	<u>18,817</u>	<u>117,741</u>	<u>354,355</u>
<u>71,303</u>	<u>1,021</u>	<u>(117,218)</u>	<u>(16,957)</u>
-	-	135,000	135,000
<u>(1,100)</u>	<u>-</u>	<u>-</u>	<u>(38,923)</u>
<u>(1,100)</u>	<u>-</u>	<u>135,000</u>	<u>96,077</u>
70,203	1,021	17,782	79,120
<u>178,318</u>	<u>358</u>	<u>539,752</u>	<u>941,445</u>
<u>\$ 248,521</u>	<u>\$ 1,379</u>	<u>\$ 557,534</u>	<u>\$ 1,020,565</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA
OCCUPANCY TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011**

Schedule 6

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other taxes and licenses:				
Occupancy tax	\$	\$	\$ 85,142	\$
Investment earnings			56	
Total revenues	85,500	85,500	85,198	(302)
Expenditures:				
Culture and recreation	49,500	49,500	49,500	-
Excess of revenues over expenditures	36,000	36,000	35,698	(302)
Other financing uses:				
Transfers out:				
General Fund	(37,823)	(37,823)	(37,823)	-
Excess of revenues under expenditures and other uses	(1,823)	(1,823)	(2,125)	(302)
Appropriated fund balance	1,823	1,823	-	(1,823)
Excess of revenues and appropriated fund balance under expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	(2,125)	<u>\$ (2,125)</u>
Fund balance, July 1			43,286	
Fund balance, June 30			<u>\$ 41,161</u>	

**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, 2011**

Schedule 7

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Investment earnings	\$	\$	\$ 58	\$
Other general revenues			71,231	
Functionally related revenues:				
Rent from communications tower			-	
Total revenues	<u>87,012</u>	<u>87,012</u>	<u>71,289</u>	<u>(15,723)</u>
Expenditures:				
Public safety:				
Other services and charges			60,664	
Debt service:				
Principal retirement			19,173	
Interest and fiscal charges			1,477	
Total expenditures	<u>125,403</u>	<u>125,403</u>	<u>81,314</u>	<u>44,089</u>
Excess of revenues under expenditures	<u>(38,391)</u>	<u>(38,391)</u>	<u>(10,025)</u>	<u>28,366</u>
Appropriated fund balance	<u>38,391</u>	<u>38,391</u>	<u>-</u>	<u>(38,391)</u>
Excess of revenues and appropriated fund balance over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(10,025)</u>	<u>\$ (10,025)</u>
Fund balance, July 1			<u>142,112</u>	
Fund balance, June 30			<u>\$ 132,087</u>	

**TOWN OF KERNERSVILLE, NORTH CAROLINA
CONTRIBUTIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011**

Schedule 8

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment earnings	\$	\$	\$ 24	\$
Miscellaneous:				
Other receipts			7,145	
Total revenues	4,250	7,800	7,169	(631)
Expenditures:				
Public safety			4,905	
Total expenditures	4,250	7,800	4,905	2,895
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	2,264	<u>\$ 2,264</u>
Fund balance, July 1			37,619	
Fund balance, June 30			<u>\$ 39,883</u>	

**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, 2011**

Schedule 9

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Restricted intergovernmental	\$	\$	\$ 153,345	\$
Investment earnings			36	
Total revenues	<u>300</u>	<u>146,650</u>	<u>153,381</u>	<u>6,731</u>
Expenditures:				
Public safety			<u>82,078</u>	
Total expenditures	<u>98,214</u>	<u>145,550</u>	<u>82,078</u>	<u>63,472</u>
Excess of revenues over (under) expenditures	<u>(97,914)</u>	<u>1,100</u>	<u>71,303</u>	<u>70,203</u>
Other financing uses				
Transfers out:				
To General Fund	<u>-</u>	<u>(1,100)</u>	<u>(1,100)</u>	<u>-</u>
Excess of revenues and other uses over (under) expenditures	<u>(97,914)</u>	<u>-</u>	<u>70,203</u>	<u>70,203</u>
Appropriated fund balance	<u>97,914</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and appropriated fund balance over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>70,203</u>	<u>\$ 70,203</u>
Fund balance, July 1			<u>178,318</u>	
Fund balance, June 30			<u>\$ 248,521</u>	

**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, 2011**

Schedule 10

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Restricted intergovernmental	\$	\$	\$ 19,838	\$
Total revenues	-	19,832	19,838	6
Expenditures:				
Public safety			12,317	
Capital outlay			6,500	
Total expenditures	-	19,832	18,817	1,015
Excess of revenues over expenditures	\$ -	\$ -	1,021	\$ 1,021
Fund balance, July 1			358	
Fund balance, June 30			\$ 1,379	

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, 2011

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Other general revenues:					
Interest on investments	\$ 12,000	\$ 26,053	\$ 523	\$ 26,576	\$ 14,576
Total revenues	<u>12,000</u>	<u>26,053</u>	<u>523</u>	<u>26,576</u>	<u>14,576</u>
Expenditures:					
Public service:					
Capital development					
Other services and charges	382,932	323,627	117,741	441,368	58,436
Total public services	<u>382,932</u>	<u>323,627</u>	<u>117,741</u>	<u>441,368</u>	<u>58,436</u>
Culture and recreation:					
Capital development					
Capital outlay	601,394	-	-	-	601,394
Total culture and recreation	<u>601,394</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>601,394</u>
Total expenditures	<u>984,326</u>	<u>323,627</u>	<u>117,741</u>	<u>441,368</u>	<u>542,958</u>
Excess of revenues under expenditures	<u>(972,326)</u>	<u>(297,574)</u>	<u>(117,218)</u>	<u>(414,792)</u>	<u>557,534</u>
Other financing sources:					
Transfers in:					
General Fund	567,326	567,326	-	567,326	-
Stormwater Fund	405,000	270,000	135,000	405,000	-
Total other financing sources	<u>972,326</u>	<u>837,326</u>	<u>135,000</u>	<u>972,326</u>	<u>-</u>
Excess of revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 539,752</u>	<u>17,782</u>	<u>\$ 557,534</u>	<u>\$ 557,534</u>
Fund balance, July 1			<u>539,752</u>		
Fund balance, June 30			<u>\$ 557,534</u>		

TOWN OF KERNERSVILLE, NORTH CAROLINA
STORMWATER ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011

Schedule 12

	2011		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Fees and charges	\$	\$ 955,981	\$
Investment earnings		747	
Total revenues	<u>960,500</u>	<u>956,728</u>	<u>(3,772)</u>
Expenditures:			
Storm water:			
Personnel services		265,231	
Other services and charges		295,819	
Debt service payments		38,821	
Total expenditures	<u>1,044,686</u>	<u>599,871</u>	<u>444,815</u>
Revenues over (under) expenditures	<u>(84,186)</u>	<u>356,857</u>	<u>441,043</u>
Other financing sources (uses):			
Transfers in from other funds		250,879	
Transfers out to other funds		(541,209)	
Total other financing uses	<u>(290,330)</u>	<u>(290,330)</u>	<u>-</u>
Excess of revenues and other uses over (under) expenditures	<u>(374,516)</u>	<u>66,527</u>	<u>441,043</u>
Appropriated fund balance	<u>374,516</u>	<u>-</u>	<u>(374,516)</u>
Excess of revenues and appropriated fund balance over expenditures and other uses	<u>\$ -</u>	<u>66,527</u>	<u>\$ 66,527</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Debt principal		35,331	
Depreciation		(51,447)	
Interest expense accrual adjustment		757	
Total reconciling items		<u>(15,359)</u>	
Change in net assets		<u>\$ 51,168</u>	

**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, 2011**

Schedule 13

	2011		
	Financial Plan	Actual	Variance Positive (Negative)
Operating revenues:			
Charges for services	\$ 287,900	\$ 281,820	\$ (6,080)
Operating expenses:			
Claims		209,427	
Stop-loss coverage		26,800	
Administration		7,500	
Total operating expenses	288,900	243,727	45,173
Operating income (loss)	(1,000)	38,093	39,093
Nonoperating revenues:			
Investment earnings	1,000	96	(904)
Change in net assets	\$ -	38,189	\$ 38,189
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Increase in claims reserve		(193,768)	
Change in net assets		\$ (155,579)	

The accompanying notes are an integral part of this statement.

OTHER SCHEDULES

This section contains additional information on property taxes.

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

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2011

Schedule 14

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2010</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2011</u>
2010-11	\$ -	\$ 13,216,546	\$ 12,881,345	\$ 335,201
2009-10	296,181	-	176,640	119,541
2008-09	103,313	-	29,921	73,392
2007-08	42,818	-	4,194	38,624
2006-07	33,992	-	25,268	8,724
2005-06	13,078	-	973	12,105
2004-05	10,338	-	723	9,615
2003-04	12,771	-	395	12,376
2002-03	10,137	-	98	10,039
2001-02	8,586	-	157	8,429
2000-01	8,570	-	8,570	-
	<u>\$ 539,784</u>	<u>\$ 13,216,546</u>	<u>\$ 13,128,284</u>	628,046

Less allowance for uncollectible accounts:
 General Fund

(73,000)
\$ 555,046

Reconciliation of Collections and Credits with Revenues:

Taxes - Ad Valorem - General Fund	\$ 12,642,432
Vehicle fees - General Fund	96,921
Recycling revenue - General Fund	205,167
Refunds	135,994
Releases	39,200
Amounts written off for tax year 2000-2001 per statute of limitations	<u>8,570</u>
	<u>\$ 13,128,284</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2011

Schedule 15

	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	\$ 2,520,434,975	\$ 0.4975	\$ 12,539,164	\$ 11,672,979	\$ 866,185
Discoveries:					
Current year taxes	88,875,027	0.4975	<u>442,153</u>	<u>450,161</u>	<u>(8,008)</u>
Total gross levy	-		12,981,317	12,123,140	858,177
Recycling fees	-		206,550	206,550	-
Vehicle tag fees	-		<u>101,835</u>	<u>-</u>	<u>101,835</u>
Total property valuation	<u>\$ 2,609,310,002</u>				
Total levy			13,289,702	12,329,690	960,012
Less releases			<u>73,156</u>	<u>64,292</u>	<u>8,864</u>
Net levy			13,216,546	12,265,398	951,148
Uncollected taxes at June 30, 2010			<u>335,201</u>	<u>234,901</u>	<u>100,300</u>
Current year's taxes collected			<u>\$ 12,881,345</u>	<u>\$ 12,030,497</u>	<u>\$ 850,848</u>
Current levy collection percentage			<u>97.46%</u>	<u>98.08%</u>	<u>89.45%</u>

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 says about the Town's overall financial health.

<u>CONTENTS</u>	<u>PAGE</u>
FINANCIAL TRENDS - these schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	94
REVENUE CAPACITY - these schedules contain information to help the reader assess the Town's most significant local revenue sources, property taxes and water and sewer charges.	99
DEBT CAPACITY - 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.	104
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.	108
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.	111

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.*

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

Table 1

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
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
Restricted	-	-	-	-	-	-	-	-	1,687,385
Unrestricted	<u>8,147,555</u>	<u>7,281,128</u>	<u>3,050,839</u>	<u>3,777,736</u>	<u>4,041,505</u>	<u>6,243,831</u>	<u>4,638,537</u>	<u>3,231,105</u>	<u>1,293,180</u>
Total governmental activities net assets	<u>\$ 114,578,480</u>	<u>\$ 112,989,359</u>	<u>\$ 114,058,142</u>	<u>\$ 117,371,589</u>	<u>\$ 122,314,996</u>	<u>\$ 130,958,643</u>	<u>\$ 129,129,371</u>	<u>\$ 126,761,769</u>	<u>\$ 127,186,682</u>
Business-type activities									
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ 213,400	\$ 238,677	\$ 330,429	\$ 321,492	\$ 304,776
Unrestricted	-	-	-	-	<u>158,751</u>	<u>546,588</u>	<u>494,794</u>	<u>435,601</u>	<u>503,485</u>
Total primary government net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 372,151</u>	<u>\$ 785,265</u>	<u>\$ 825,223</u>	<u>\$ 757,093</u>	<u>\$ 808,261</u>
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
Restricted	-	-	-	-	-	-	-	-	1,687,385
Unrestricted	<u>8,147,555</u>	<u>7,281,128</u>	<u>3,050,839</u>	<u>3,777,736</u>	<u>4,200,256</u>	<u>6,790,419</u>	<u>5,133,331</u>	<u>3,666,706</u>	<u>1,796,665</u>
Total primary government net assets	<u>\$ 114,578,480</u>	<u>\$ 112,989,359</u>	<u>\$ 114,058,142</u>	<u>\$ 117,371,589</u>	<u>\$ 122,687,147</u>	<u>\$ 131,743,908</u>	<u>\$ 129,954,594</u>	<u>\$ 127,518,862</u>	<u>\$ 127,994,943</u>

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

Note: The Town of Kernersville began to report information when it implemented GASB Statement 34 in fiscal year 2003.

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

Table 2

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
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
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
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
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
Interest on long-term debt	267,353	422,413	472,930	707,314	691,913	620,311	584,278	494,302	448,776
Total governmental activities expenses	<u>16,262,183</u>	<u>23,175,579</u>	<u>22,020,209</u>	<u>24,342,232</u>	<u>20,515,043</u>	<u>23,353,116</u>	<u>26,563,353</u>	<u>25,579,892</u>	<u>25,068,141</u>
Business-type activities:									
Stormwater management	-	-	-	-	505,780	453,687	641,403	740,532	615,230
Total business-type activities	-	-	-	-	<u>505,780</u>	<u>453,687</u>	<u>641,403</u>	<u>740,532</u>	<u>615,230</u>
Total primary government expenses	<u>\$ 16,262,183</u>	<u>\$ 23,175,579</u>	<u>\$ 22,020,209</u>	<u>\$ 24,342,232</u>	<u>\$ 21,020,823</u>	<u>\$ 23,806,803</u>	<u>\$ 27,204,756</u>	<u>\$ 26,320,424</u>	<u>\$ 25,683,371</u>
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
Public safety	48,738	121,660	101,287	167,410	127,399	231,401	223,562	272,264	234,847
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
Culture and recreation	151,128	142,458	164,897	245,795	168,752	290,617	243,012	259,428	284,283
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
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
Total governmental activities program revenues	<u>2,718,354</u>	<u>3,637,372</u>	<u>7,614,040</u>	<u>9,735,836</u>	<u>7,499,419</u>	<u>11,736,526</u>	<u>5,478,260</u>	<u>4,055,304</u>	<u>5,999,467</u>
Business-type activities:									
Charges for services:	-	-	-	-	887,040	919,345	934,110	946,303	955,981
Capital grants and contributions	-	-	-	-	32,279	-	-	9,028	-
Total business-type activities program revenues	-	-	-	-	<u>919,319</u>	<u>919,345</u>	<u>934,110</u>	<u>955,331</u>	<u>955,981</u>
Total primary government program revenues	<u>\$ 2,718,354</u>	<u>\$ 3,637,372</u>	<u>\$ 7,614,040</u>	<u>\$ 9,735,836</u>	<u>\$ 8,418,738</u>	<u>\$ 12,655,871</u>	<u>\$ 6,412,370</u>	<u>\$ 5,010,635</u>	<u>\$ 6,955,448</u>

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

Table 2

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
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
Other taxes	559,046	491,060	526,137	607,479	917,167	339,268	228,614	229,200	232,061
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
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
Transfers	-	-	-	-	58,311	68,847	263,845	283,845	290,330
Gain (loss) on sale of capital assets	135,478	-	-	-	-	422,635	-	(23,524)	38,642
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
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
Business-type activities:									
Investments earnings, unrestricted	-	-	-	-	16,924	16,299	11,096	916	747
Transfers	-	-	-	-	(58,311)	(68,847)	(263,845)	(283,845)	(290,330)
Miscellaneous	-	-	-	-	-	4	-	-	-
Total business-type activities	-	-	-	-	(41,387)	(52,544)	(252,749)	(282,929)	(289,583)
Total primary government program revenues	<u>\$ 13,755,615</u>	<u>\$ 17,800,616</u>	<u>\$ 15,474,952</u>	<u>\$ 17,130,174</u>	<u>\$ 18,707,312</u>	<u>\$ 20,207,693</u>	<u>\$ 19,003,072</u>	<u>\$ 18,874,057</u>	<u>\$ 19,204,004</u>
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
Business activities	-	-	-	-	372,152	413,114	39,958	(68,130)	51,168
Total primary government change in net assets	<u>\$ 211,786</u>	<u>\$ (1,737,591)</u>	<u>\$ 1,068,783</u>	<u>\$ 2,523,778</u>	<u>\$ 6,105,227</u>	<u>\$ 9,056,761</u>	<u>\$ (1,789,314)</u>	<u>\$ (2,435,732)</u>	<u>\$ 476,081</u>
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
Net assets - ending	<u>114,726,950</u>	<u>112,989,359</u>	<u>114,058,142</u>	<u>116,581,920</u>	<u>122,687,147</u>	<u>131,743,908</u>	<u>129,954,594</u>	<u>127,518,862</u>	<u>127,994,943</u>

Note: The Town of Kernersville began to report information when it implemented GASB Statement 34 in fiscal year 2003.

Notes: * Restated Net Assets

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

TOWN OF KERNERSVILLE, NORTH CAROLINA
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years

Table 3

(modified accrual basis of accounting)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General Fund										
Reserved	\$ 1,053,736	\$ 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
Unreserved	5,147,500	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
Non-spendable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	22,917
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,588,285
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	147,933
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	302,337
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7,034,981
Total general fund	<u>6,201,236</u>	<u>6,784,158</u>	<u>7,902,257</u>	<u>7,619,232</u>	<u>7,609,583</u>	<u>7,642,062</u>	<u>9,875,367</u>	<u>9,396,909</u>	<u>8,959,646</u>	<u>9,096,453</u>
All other governmental funds										
Reserved	26,598	75,178	233,009	200,877	628,635	36,154	38,724	219,342	144,729	N/A
Unreserved, reported in:										
Special revenue funds	84,545	360,007	641,243	426,552	1,540,238	1,067,588	666,922	639,156	342,578	N/A
Capital projects funds	(1,211,418)	(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
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	429,216
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,766,051
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	119,429
Total all other governmental funds	<u>(1,100,275)</u>	<u>(1,371,343)</u>	<u>4,549,485</u>	<u>3,059,969</u>	<u>4,846,061</u>	<u>4,915,679</u>	<u>4,927,687</u>	<u>3,581,735</u>	<u>2,678,023</u>	<u>2,314,696</u>
Total fund balance	<u>\$ 5,100,961</u>	<u>\$ 5,412,815</u>	<u>\$ 12,451,742</u>	<u>\$ 10,679,201</u>	<u>\$ 12,455,644</u>	<u>\$ 12,557,741</u>	<u>\$ 14,803,054</u>	<u>\$ 12,978,644</u>	<u>\$ 11,637,669</u>	<u>\$ 11,411,149</u>

FYE 2003-2010 source: Exhibit 3 in Basic Financial Statements

FYE 1997-2002 source: Exhibit A in Basic Financial Statements

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

Table 4

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues by Source										
Taxes (see Exhibit 4)	\$ 7,621,095	\$ 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
Other taxes and licenses	222,377	559,047	491,060	526,136	607,479	560,279	339,268	228,614	229,200	232,061
Unrestricted intergovernmental	3,689,249	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
Restricted intergovernmental	1,061,725	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
Penalties and interest	238,400	149,774	149,769	269,064	504,173	676,364	584,913	230,393	106,130	90,490
Contributions and donations	-	376,960	178,316	106,144	175,618	133,806	801,167	814,931	828,882	883,787
Other revenues	457,576	130,391	315,130	259,987	1,722,565	175,828	705,381	278,612	204,547	201,349
Functionally related revenues	1,465,547	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
Total revenues	14,755,969	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
Expenditures by Function										
General government	2,191,201	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
Public safety	6,468,718	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
Public service	5,325,373	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
Cultural and recreation	784,755	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
Debt service										
Principal retirement	1,095,831	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
Interest and fiscal charges	351,660	269,478	422,413	461,589	664,668	691,913	731,654	593,917	530,396	458,547
Total expenditures	16,217,538	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
Excess of revenue over (under) expenditures	(1,461,569)	(446,256)	(6,259,123)	(5,851,146)	(1,874,387)	(330,004)	310,697	(2,676,565)	(2,021,120)	(1,163,050)
Other Financing Sources (Uses)										
Proceeds from installment purchases	262,500	343,175	1,270,350	1,329,533	1,752,750	1,396,571	1,579,047	588,310	396,300	646,200
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	913,304	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
Transfers out	(991,880)	(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)
Total other financing sources	183,924	478,653	12,744,581	4,264,555	3,650,830	1,262,101	1,934,611	852,155	680,145	936,530
Net change in fund balances	\$ (1,277,645)	\$ 32,397	\$ 6,485,458	\$ (1,586,591)	\$ 1,776,443	\$ 932,097	\$ 2,245,308	\$ (1,824,410)	\$ (1,340,975)	\$ (226,520)
Capital outlay included in total expenditures	\$ 1,797,064	\$ 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
Debt service as a percentage of noncapital expenditures	10.0%	9.0%	8.0%	8.6%	11.9%	13.9%	14.3%	12.1%	12.2%	10.8%

Source Exhibit #4

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

Table 5

Fiscal Year	Property Tax
2002	\$ 7,621,095
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
Change from 2001 to 2010	65.9%

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 97.46%.

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

Table 6

Fiscal Year	Town Direct Rates			Forsyth County ^b	Guilford County ^b
	Basic Rate	General Obligation Streets Debt Service ^a	Total Direct		
2002	0.4700	-	0.4700	0.6400	
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

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.

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

Table 7

<u>Taxpayer</u>	<u>2010</u>			<u>2002</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Pope Companies	\$ 57,249,730	1	2.19%	\$ 35,752,978	1	2.24%
Deere-Hitachi Mfg. Corp.	34,695,870	2	1.33%	25,285,319	2	1.58%
Hommel Brown Group Lic	29,671,700	3	1.14%	-		-
Grass America, Inc.	25,685,390	4	0.98%	21,931,489	3	1.37%
DLS Kernersville, LLC	22,050,190	5	0.85%	19,927,800	4	1.25%
Roadway Express, Inc.	19,923,070	6	0.76%	11,414,680	7	0.71%
Forsyth Memorial Hospital Inc	19,755,800	7	0.76%	-		-
Wal-Mart Real Estate Bus. Trust	19,260,040	8	0.74%	15,815,319	5	0.99%
Duke Energy Corp.	17,956,840	9	0.69%	10,226,382	3	0.64%
Lowes Home Centers Inc.	17,182,420	10	0.66%	-		-
Foster Apartment Group, LLC	-		-	13,891,914	6	0.87%
Madison Place Apartments, LLC	-		-	11,328,936	8	0.71%
Highland Industries, Inc.	-		-	9,035,531	10	0.57%
	<u>\$ 263,431,050</u>		<u>10.10%</u>	<u>\$ 174,610,348</u>		<u>10.92%</u>

Source: Forsyth County Tax Office.

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

Table 8

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	\$ 7,978,658	\$ 7,852,848	98.42%	\$ 116,169	\$ 7,969,017	99.88%
2003	8,652,937	8,489,298	98.11%	135,060	8,624,358	99.67%
2004	8,953,013	8,810,253	98.41%	128,346	8,938,599	99.84%
2005	9,746,677	9,557,501	98.06%	159,028	9,716,529	99.69%
2006	10,881,856	10,694,040	98.27%	148,067	10,842,107	99.63%
2007	11,875,246	11,699,663	98.52%	118,549	11,818,212	99.52%
2008	12,486,971	12,292,288	98.44%	155,580	12,447,868	99.69%
2009	12,901,217	12,666,973	98.18%	213,210	12,880,183	99.84%
2010	13,044,986	12,748,806	97.73%	178,188	12,926,994	99.10%
2011	13,216,546	12,881,345	97.46%	246,939	13,128,284	99.33%

Sources: Forsyth County Tax Office.

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

Table 9

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
2002	\$ 675,754,630	\$ 414,782,050	\$ 184,290,420	\$ 34,319,493	\$ 2,283,230	\$ 1,306,863,363	0.4700	\$ 1,598,466,001	81.76%
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	1,766,987,677	79.34%
2005	777,103,470	454,462,950	187,049,050	32,903,882	5,470,400	1,446,048,952	0.5250	1,824,445,645	79.26%
2006	899,129,900	518,542,100	212,081,260	34,043,883	6,680,600	1,657,116,543	0.5250	2,040,819,236	81.20%
2007	933,915,850	539,076,760	208,905,340	40,005,450	7,017,000	1,714,886,400	0.5500	2,127,437,022	80.61%
2008	965,048,470	578,761,960	215,866,050	42,738,740	7,017,000	1,795,398,220	0.5500	2,228,066,118	80.58%
2009	1,071,923,982	649,891,522	22,817,874	42,235,983	10,741,776	1,776,127,585	0.5500	2,298,013,998	77.29%
2010	1,366,205,630	669,160,371	66,381,566	44,319,081	12,774,988	2,133,291,660	0.4975	2,621,589,607	81.37%
2011	1,378,909,152	624,082,003	74,881,666	49,694,428	13,050,510	2,114,516,739	0.4975	2,609,310,002	81.04%

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 year:

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

Table 10

Fiscal Year	Governmental Activities					Business-Type Activities	Total Primary Government	Percentage of County Personal Income	Per Capita ^a
	General Obligation Bonds	Water and Sewer Refunding Bonds	State Revolving Loan	Term Loan Payable	Installment Purchases	Installment Purchases			
2002	\$ -	\$ 110,000	\$ -	\$ -	\$ 4,685,212	\$ -	\$ 4,795,212	49.81%	248
2003	-	70,000	-	-	4,446,375	-	4,516,375	45.86%	227
2004	7,035,000	35,000	4,201,294	-	4,585,289	-	15,856,583	157.18%	774
2005	6,900,000	-	7,136,316	-	4,767,698	-	18,804,014	172.87%	905
2006	6,800,000	-	7,600,000	-	5,016,524	-	19,416,524	172.01%	913
2007	6,700,000	-	7,200,000	-	4,713,122	43,398	18,656,520	156.87%	861
2008	6,350,000	-	6,800,000	-	4,533,147	6,818	17,689,965	139.34%	806
2009	6,000,000	-	6,400,000	-	3,468,391	147,111	16,015,502	120.97%	716
2010	5,600,000	-	6,000,000	-	2,315,253	109,410	14,024,663	n/a	610
2011	5,200,000	-	5,600,000	-	1,708,517	74,079	12,582,596	n/a	542

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

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

Table 11

Fiscal Year	General Obligation Bonds	Total	Percentage of G.O. Debt to Actual Taxable Value of Property ^a	Per Capita ^b
2002	\$ 110,000	\$ 110,000	0.0069%	\$ 5.68
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	0.1993%	224.15

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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of June 30, 2011

Table 12

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable^{a & b}</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Forsyth County's general obligation debt	\$ 396,345,000	9.195%	\$ 36,443,923
Town of Kernersville's direct debt			<u>5,600,000</u>
Total direct and overlapping debt			<u><u>\$ 42,043,923</u></u>

^a Source: Forsyth County.

Notes:

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

^a 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**

Table 13

Legal Debt Margin Calculation for Fiscal Year 2011	
Assessed value	\$ 2,609,310,002
Debt limit (8% of assessed value)	208,744,800
Debt applicable to limit:	
General obligation bonds	5,200,000
Legal debt margin	\$ 203,544,800

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt limit	\$ 131,758,829	\$ 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
Total net debt applicable to limit	110,000	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
Legal debt margin	\$ 131,648,829	\$ 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
Total net debt applicable to the limit as a percentage of debt limit	0.08%	0.05%	4.98%	4.73%	4.16%	3.94%	3.56%	3.26%	2.67%	2.49%

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

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

Table 14

<u>Calendar Year</u>	<u>Population</u> ¹	<u>Personal Income</u> ¹	<u>Per Capita Personal Income</u> ¹	<u>Median Age</u> ¹	<u>School Enrollment</u> ²	<u>Unemployment Rate</u> ³
2002	19,361	\$ 9,847,688	\$ 31,947	36.6	6,262	5.7%
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%

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**

Table 15

<u>Employer</u>	<u>2011 ¹</u>			<u>2002 ²</u>		
	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>
Wake Forest University Baptist Medical Center ^a	11,763	1	7.6%	11,121	1	7.1%
Novant Health and Affiliates	8,100	2	5.2%	6,300	2	4.0%
Winston-Salem/Forsyth County School System	6,692	3	4.3%	4,700	5	3.0%
Reynolds American ^c	3,000	4	1.9%	5,930	4	3.8%
Hanes Brands, Inc. ^b	2,800	5	1.8%	6,000	3	3.8%
Wachovia Bank, N.A. - a division of Wells Fargo Corporation. ^d	2,800	6	1.8%	4,379	6	2.8%
City of Winston-Salem	2,660	7	1.7%	2,416	8	1.5%
Forsyth County	2,079	8	1.3%	1,859	10	1.2%
BB&T Corporation	2,000	9	1.3%	N/A	-	-
Wake Forest University	1,715	10	1.1%	N/A	-	-
US Airways	N/A		-	2,800	7	1.8%
Budd Services, Inc.	N/A		-	2,247	9	1.4%
Total	<u>43,609</u>		<u>27.8%</u>	<u>47,752</u>		<u>30.4%</u>

¹ estimates as of December 2011

² estimates as of December 2002

^a formerly North Carolina Baptist Hospitals, Inc.

^b formerly Sara Lee Personal Products

^c formerly RJR Nabisco, Inc.

^d 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.

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

Table 16

<u>Function/Program</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General government										
Governing body	6	6	6	6	6	6	6	6	6	6
Administration Dept.	3	3	3	2	3	4	4	3	3	3
Finance	4	4	4	4	4	4	5	5	5	5
Information Technology	1	1	1	1	1	2	2	3	3	3
Planning & Zoning	5	4	3	5	4	4	4	4	4	4
Inspections	4	4	5	5	7	6	6	6	6	6
Personnel	3	3	4	4	3	3	3	3	3	4
General Services	3	3	3	3	4	3	3	3	3	2
Police										
Officers	53	56	57	62	66	66	68	66	68	68
Civilians	13	12	15	15	18	15	16	19	15	15
Fire										
Firefighters and officers	58	59	59	65	65	67	62	67	68	68
Civilians	1	1	1	1	1	1	1	1	1	1
Public Services										
Engineering	3	3	3	3	2	3	3	3	3	3
Street	16	17	17	15	16	16	15	17	17	17
Sanitation	21	15	15	15	23	25	25	23	23	25
Transportation	-	-	-	-	-	-	-	6	6	6
Public Works Administration	7	9	9	9	9	11	11	6	5	4
Central Maintenance	6	6	6	6	7	7	7	8	7	9
Stormwater Enterprise	-	-	-	-	-	6	6	5	5	5
Culture & Recreation										
Recreation	9	6	9	9	9	17	17	9	8	8
Total	<u>216</u>	<u>212</u>	<u>220</u>	<u>230</u>	<u>248</u>	<u>266</u>	<u>264</u>	<u>263</u>	<u>259</u>	<u>262</u>

Source: Town's Payroll Department.

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

Table 17

<u>Function/Program</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Police										
Physical arrests	2,251	2,500	2,549	2,849	3,078	2,479	2,744	2,901	850	851
Parking violations	265	156	111	127	154	571	602	373	301	180
Traffic violations	3,133	3,157	2,359	4,224	4,122	3,818	3,514	1,300	3,148	3,211
Fire										
Emergency responses	2,253	2,370	1,998	2,054	1,889	2,378	2,489	2,489	2,587	2,740
Fires extinguished	120	119	86	100	95	99	180	180	124	123
Inspections	710	578	812	370	476	902	1,179	1,179	1,088	1,284
Refuse collection										
Refuse collected (tons per year)	16,216	15,654	15,030	15,118	14,084	15,209	13,962	13,248	13,384	13,283
Recyclables collected (tons per year)	3,388	5,484	3,765	3,025	3,956	4,078	3,483	4,311	4,277	5,878
Other public works										
Street resurfacing (miles)	4.0	1.6	1.2	1.6	1.6	2.5	3.1	1.8	1.6	3.3
Potholes repaired (square yards)	8,364	6,342	5,774	6,277	6,585	1,797	1,444	1,654	1,512	1,115
Parks and recreation										
Athletic field permits issued	31	30	29	31	29	32	32	32	32	32

N/A = not available.

Sources: Various Town departments.

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

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

Table 18

Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Policemen and officers	53	56	57	62	66	66	67	67	68	68
Annual police calls to which responded	30,477	29,102	29,825	32,646	34,507	34,831	36,407	41,136	34,676	37,836
Annual traffic accidents	1,116	1,288	1,311	1,313	1,270	1,447	1,403	1,300	1,242	1,357
Annual number of arrests (18 years and over)	2,335	2,592	2,450	2,463	3,078	2,479	1,744	2,901	1,271	1,202
Fire stations										
Firemen and officers	58	59	59	65	65	67	65	68	68	68
Annual fire calls	2,016	2,264	2,313	2,003	1,889	2,378	2,489	2,532	2,587	2,740
Building permits issued										
Value of building permits issued	\$ 41,131,637	\$ 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
Public services										
Streets (miles)	85.950	86.809	88.586	89.884	90.780	91.800	94.272	94.590	94.696	95.288
Streetlights	2,549	2,703	2,748	2,797	2,871	2,885	2,931	3,042	3,098	3,100
Traffic signals	29	29	30	30	30	38	38	28	28	28
Parks and recreation										
Parks	6	6	6	6	6	7	7	7	7	7
Total acreage of parks	277	277	277	277	277	289	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	1	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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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, 2011, which collectively comprise the Town of Kernersville's basic financial statements, and have issued our report thereon dated December 14, 2011. 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.

Our consideration of the internal control over financial reporting was for limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider Finding 2011-1 described in the accompanying schedule of findings and responses to be significant a deficiency in internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

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 the significant deficiency noted above, Finding 2011-1, is a material weakness.

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

December 14, 2011

SUPPLEMENTARY INFORMATION

SINGLE AUDIT SECTION

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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, 2011. 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.

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, 2011.

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

December 14, 2011

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Schedule 19
Page 1 of 3

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? X Yes No

- Significant deficiencies identified that are not considered to be material weaknesses? Yes X None reported

- Noncompliance material to financial statements noted? Yes X No

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 programs:

_____ Program Name

Powell Bill

II. Financial Statement Findings

Finding 2011-1

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 misstatement 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended June 30, 2011

Schedule 19
Page 3 of 3

III. Federal Awards Findings and Questioned Costs

Not applicable.

IV. State Award Findings and Questioned Costs

There were no findings related to state awards for the fiscal year ended June 30, 2011.

TOWN OF KERNERSVILLE, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2011

Schedule 20

Finding: 2010-1

Status: See Finding 2011-1.

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
Year Ended June 30, 2011

Schedule 21

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		\$ 14,463	\$ 14,463	\$ -
Total U.S. Department of Energy			<u>14,463</u>	<u>14,463</u>	<u>-</u>
U.S. Department of Justice					
Direct Programs					
Forfeiture Funds	16.000	NC0-340100	142,526	142,526	-
Organized Crime Drug Enforcement Task Forces	16.000	50CD04984	7,122	7,122	-
Edward Byrne Memorial Justice Assistance Grant	16.738	2010-DJ-BX-0282	14,555	14,555	-
Total U.S. Department of Justice			<u>164,203</u>	<u>164,203</u>	<u>-</u>
U.S. Department of Transportation					
Passed through the NC Department of Transportation:					
Governor's Highway Safety Program Checkpoint Equipment	20.600	PT-11-03-03-14	2,475	2,475	-
Surface Transportation Program N Main St Sidewalk	20.600-1	WBS 3609.3.12	20,000	20,000	-
Total U.S. Department of Transportation			<u>22,475</u>	<u>22,475</u>	<u>-</u>
U.S. Department of Homeland Security					
Direct Programs					
Federal Emergency Management Agency SAFER	97.083	EMW-2008-FF-00362	83,054	83,054	-
Total U.S. Department of Homeland Security			<u>83,054</u>	<u>83,054</u>	<u>-</u>
Total assistance - Federal programs			<u>284,195</u>	<u>269,732</u>	<u>-</u>
State Grants:					
NC Department of Transportation					
Direct Programs					
Powell Bill			593,378	-	593,378
Roundabout - Old Greensboro Road/Mountain Street			12,309	-	12,309
Passed through the City of Winston-Salem Kerners Mill Feasibility Study			35,075	-	35,075
Total NC Department of Transportation			<u>640,762</u>	<u>-</u>	<u>640,762</u>
NC Dept. of Crime Control and Public Safety					
Direct Programs					
GREAT 2009	16.738	034-1-08-001-BH-203	43,982	-	43,982
Total NC Dept. of Crime Control and Public Safety			<u>43,982</u>	<u>-</u>	<u>43,982</u>
NC Dept. of Environmental and Natural Resources					
Direct Programs					
2010 Community Waste and Recycling		3250	25,000	-	25,000
Total NC Dept. of Environmental and Natural Resources			<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total assistance - State programs			<u>709,744</u>	<u>-</u>	<u>709,744</u>
Total assistance			<u>\$ 993,939</u>	<u>\$ 269,732</u>	<u>\$ 709,744</u>

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 basis financial statements.