

TOWN OF SAWMILLS, NORTH CAROLINA

Financial Statements, Supplemental Schedules,
Independent Auditors' Report and Compliance Report
For the Year Ended June 30, 2012

Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

TOWN OF SAWMILLS, NORTH CAROLINA

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Independent Auditors' Report

The Honorable Mayor and
Members of the Town Council
Sawmills, 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 Sawmills, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sawmills, North Carolina's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 Sawmills, North Carolina as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows, 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 October 19, 2012 on our consideration of the Town of Sawmills, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sawmills, North Carolina's financial statements as a whole. The individual fund financial statements and other financial data are presented for purposes of additional analysis and are not a required part of the financial statements. The individual fund financial statements and other financial data are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Sawmills Church & Co." with a stylized flourish at the end.

October 19, 2012

Management's Discussion and Analysis

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

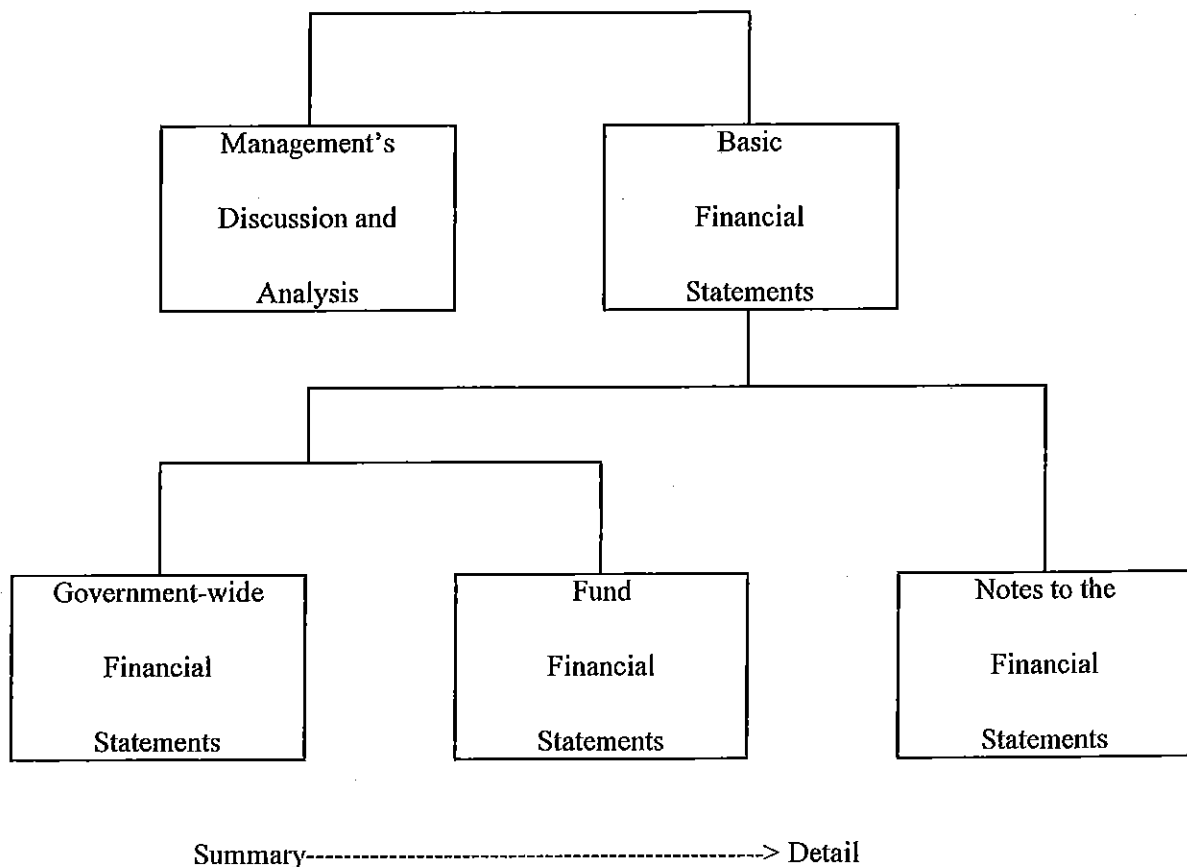
Financial Highlights

- The Town of Sawmills' assets exceeded its liabilities at the close of the fiscal year by \$14,164,259 (net assets).
- The government's total net assets increased by \$184,919.
- As of the close of the current fiscal year, the Town of Sawmills' governmental funds reported ending fund balance of \$4,097,617, an increase of \$220,687 in comparison with the prior year. Approximately 76 percent of this total amount, or \$2,960,474, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,379,163, or 188 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 10) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Town 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 of Sawmills individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide 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 of Sawmills' financial status as a whole.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as planning and community development, parks and recreation, and general administration. Property taxes, state sales tax, and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services. The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the Town of Sawmills' 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 Sawmills, 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 Sawmills 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 that 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 programs. The relationship between government activities (reported in the 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 Sawmills 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 of Sawmills to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds - The Town of Sawmills has the following type of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Sawmills uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

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 follow Exhibit 10 of this report.

Government-Wide Financial Analysis

Town of Sawmills' Net Assets						
	Governmental		Business-type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$4,226,735	\$4,011,967	\$3,643,736	\$3,475,655	\$ 7,870,472	\$ 7,487,623
Capital assets	<u>2,410,249</u>	<u>2,529,727</u>	<u>4,158,653</u>	<u>4,234,276</u>	<u>6,568,901</u>	<u>6,764,002</u>
Total assets	<u>\$6,636,984</u>	<u>\$6,541,694</u>	<u>\$7,802,389</u>	<u>\$7,709,931</u>	<u>\$14,439,373</u>	<u>\$14,251,625</u>
Liabilities:						
Long term liabilities outstanding	\$ 26,425	\$ 93,155	\$ 127,505	\$ 144,132	\$ 153,930	\$ 237,287
Other liabilities	<u>15,534</u>	<u>38,433</u>	<u>105,650</u>	<u>90,349</u>	<u>121,184</u>	<u>128,782</u>
Total liabilities	<u>\$ 41,959</u>	<u>\$ 131,588</u>	<u>\$ 233,155</u>	<u>\$ 234,481</u>	<u>\$ 275,114</u>	<u>\$ 366,069</u>
Net assets:						
Invested in capital assets, net of related debt	\$2,410,249	\$2,456,005	\$4,036,331	\$4,095,574	\$ 6,446,580	\$ 6,551,579
Restricted	718,454	916,456	-	-	718,454	916,456
Unrestricted	<u>3,466,322</u>	<u>3,037,645</u>	<u>3,532,903</u>	<u>3,379,876</u>	<u>6,999,225</u>	<u>6,417,521</u>
Total net assets	<u>\$6,595,025</u>	<u>\$6,410,106</u>	<u>\$7,569,234</u>	<u>\$7,475,450</u>	<u>\$14,164,259</u>	<u>\$13,885,556</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Sawmills exceeded liabilities by \$14,164,259 as of June 30, 2012. The Town's net assets increased by \$278,703 for the fiscal year ended June 30, 2012. The largest portion of net assets (46%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Sawmills 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 (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$6,999,225 is unrestricted.

Town of Sawmills
Changes in Net Assets

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 198,290	\$ 118,514	\$ 643,113	\$ 681,180	\$ 841,403	\$ 799,694
Operating grants and contributions	149,072	151,977	-	-	149,072	151,977
Capital grants and contributions	-	-	43,249	-	43,249	-
General revenues:						
Property taxes	461,660	444,639	-	-	461,660	444,639
Other taxes	860,904	801,256	-	-	860,904	801,256
Grants and contributions not restricted to specific programs	279,190	111,794	-	-	279,190	111,794
Other	<u>82,241</u>	<u>46,146</u>	<u>6,707</u>	<u>13,433</u>	<u>88,948</u>	<u>59,579</u>
Total revenues	<u>2,031,357</u>	<u>1,674,326</u>	<u>693,069</u>	<u>694,613</u>	<u>2,724,426</u>	<u>2,368,939</u>
Expenses:						
General government	832,473	856,118	-	-	832,473	856,118
Transportation	466,263	294,446	-	-	466,263	294,446
Environmental protection	254,050	238,460	-	-	254,050	238,460
Economic development	37,084	20,101	-	-	37,084	20,101
Culture and recreation	254,340	368,188	-	-	254,340	368,188
Interest	2,228	4,391	-	-	2,228	4,391
Water and sewer	-	-	<u>599,286</u>	<u>651,395</u>	<u>599,286</u>	<u>651,395</u>
Total expenses	<u>1,846,438</u>	<u>1,781,704</u>	<u>599,286</u>	<u>651,395</u>	<u>2,445,724</u>	<u>2,433,099</u>
Increase in net assets before transfers	184,919	(107,378)	93,784	43,219	278,703	(64,159)
Transfers	-	-	-	-	-	-
Increase in net assets	184,919	(107,378)	93,784	43,219	278,703	(64,159)
Net assets - July 1	<u>6,410,106</u>	<u>6,517,484</u>	<u>7,475,450</u>	<u>7,432,231</u>	<u>13,885,556</u>	<u>13,949,715</u>
Net assets - June 30	<u>\$6,595,025</u>	<u>\$6,410,106</u>	<u>\$7,569,234</u>	<u>\$7,475,450</u>	<u>\$14,164,259</u>	<u>\$13,885,556</u>

Governmental Activities - Governmental activities increased the Town of Sawmills' net assets by \$184,919. Key elements of this increase are as follows:

- Collected three years of utility franchise back taxes after an audit of municipal properties was conducted in partnership with Blue Ridge Electric.
- The Town ended the year 10.68% under budget on expenditures.
- Code enforcement position was eliminated early in the year.

Business-type Activities - Business-type activities increased the Town of Sawmills' net assets by \$93,784.

Financial Analysis of the Town of Sawmills' Funds

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

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

The general fund is the chief operating fund of the Town of Sawmills. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,379,163, while total fund balance reached \$4,097,617. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 188 percent of total General Fund expenditures.

At June 30, 2012, the governmental funds of the Town reported a fund balance of \$4,097,617, a 6 percent increase from last year.

Budgetary Highlights - During the fiscal year, the Town of Sawmills revised the budget on several occasions. 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.

No budget amendments were made in fiscal year 2011/2012.

Proprietary Funds - The Town of Sawmills' proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$3,532,903. The total growth in net assets for Water and Sewer Fund was \$93,784. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Sawmills' business-type activities.

Capital Asset and Debt Administration

Capital Assets - The Town of Sawmills' investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$6,568,901 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following items:

- Computer and software upgrades at Town Hall
- Roof and gutter replacement at Town Hall
- New playground equipment at Sawmills Municipal Park
- Final debt payment made on the refuse truck
- Electronic meter readers
- Light duty truck for water department
- Sewer rodding machine
- Sewer inspection camera
- Service truck with crane for street department

Town of Sawmills' Capital Assets

Figure 4

	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 225,239	\$ 225,239	\$ 5,436	\$ 5,436	\$ 230,675	\$ 230,675
Buildings	346,765	346,765	-	-	346,765	346,765
Improvements (other than buildings)	19,100	11,708	-	-	19,100	11,708
Machinery and equipment	156,411	138,145	103,458	89,150	259,869	227,295
Vehicles	758,990	685,667	47,133	33,211	806,123	718,878
Water distribution system	-	-	2,423,431	2,423,431	2,423,431	2,423,431
Sewer lines	-	-	3,212,973	3,212,973	3,212,973	3,212,973
Parks	2,418,136	2,418,136	-	-	2,418,136	2,418,136
Office equipment	<u>38,925</u>	<u>69,208</u>	<u>-</u>	<u>-</u>	<u>38,925</u>	<u>69,208</u>
Total	3,963,565	3,894,867	5,792,431	5,764,201	9,755,996	9,659,068
Accumulated depreciation	<u>(1,553,316)</u>	<u>(1,365,140)</u>	<u>(1,633,779)</u>	<u>(1,529,926)</u>	<u>(3,187,095)</u>	<u>(2,895,066)</u>
Capital assets, net	<u><u>\$ 2,410,249</u></u>	<u><u>\$ 2,529,727</u></u>	<u><u>\$ 4,158,652</u></u>	<u><u>\$ 4,234,275</u></u>	<u><u>\$ 6,568,901</u></u>	<u><u>\$ 6,764,002</u></u>

Additional information on the Town's capital assets can be found in note II of this report.

Long-term Debt - As of June 30, 2012, the Town of Sawmills had no bonded debt outstanding. The Town's debt of \$122,321 represents a note payable with a governmental entity for the purchase of water lines, and a loan for water line construction. The Town's total debt decreased by \$90,103 during the past year due to payments.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Sawmills is \$16,484,247. The Town of Sawmills has no bonds authorized but un-issued as of June 30, 2012.

Additional information regarding the Town of Sawmills' long-term debt can be found in note II of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators affect operations of the Town of Sawmills.

High Unemployment. Caldwell County's overall unemployment rate is above the State average. Caldwell County is currently designated a Tier One County by the State of North Carolina for the purpose of economic assistance funds.

Budget Highlights for the Fiscal Year Ending June 30, 2013

It is important to note that although the Town is seeing some encouraging signs of economic growth, the Adopted Budget is conservative in nature and staff tried extremely hard to maintain a “hold the line” approach very similar to fiscal year 2011-2012.

The Adopted Budget includes:

- no tax increases
- slight increases to the water and sewer rates
- no appropriation of General Fund unrestricted reserves will be made for the fiscal year
- maintains current levels of service
- maintains current levels of benefits for employees
- includes some restructuring of staff which addresses increased productivity, efficiency and service level
- includes a 2% Cost of Living Adjustment (COLA) for all full-time employees
- includes up to 3% Merit Pay Increase for all full time employees based on employee performance reviews

Below is a brief budgetary summary of the various funds for the Town:

General Fund

All revenues which comprise the General Fund have been forecasted in a conservative manner. Staff has reviewed the estimates for state-collected revenues published every year by the North Carolina League of Municipalities, current economic trends for Western North Carolina, current nationwide economic trends and historical data from the Town. The Adopted Budget assumes an 89.72% collection rate for ad valorem taxes and a slight increase in local option sales tax. There is no General Fund balance appropriation included. Staff anticipates an increase of the General Fund balance at the end of fiscal year 2012-2013, barring no emergencies. Beginning this fiscal year, the Town will have zero long term debt in the General Fund.

General Fund departments include the Governing Body, Administration, Finance, Community Development, Public Works, Sanitation and Parks and Recreation budgets. Expenses have again been forecasted in a conservative manner, but approached in such a way that service to the citizens remains constant.

Some highlights in the General Fund Department budgets include:

- combining the planning and code enforcement positions using the services of the Western Piedmont Council of Governments;
- maintaining employee benefits at current levels which entail a 1% increase in health insurance premiums and a 3% increase in dental insurance premiums;
- salary increases shown in specific departments as a full-year realization of adjustments based on a 2% COLA increase and up to a 3% Merit increase for full time employees;
- creation of a Capital Projects Fund to be used as a tool for the Town to begin saving for larger future capital purchases such as a new refuse truck;
- extending public works facilities to guarantee the protection of existing and future Town equipment;
- significant investment in the repair and maintenance of critical road infrastructure;
- creation of a new Christmas Tree Lighting community event;
- increases in the cost of fuel;
- addressing safety concerns by repairing fencing at Sawmills Municipal Park;
- construction of an outdoor basketball court at Sawmills Municipal Park;
- continued participation in the Caldwell County Sales Tax Reinvestment Program in the amount of \$400,000.

The total General Fund budget is \$2,105,636 which equates to an approximate 4.6% increase over the approved fiscal year 2011-2012 budget.

Enterprise Funds Summary

Water Fund - revenues for fiscal year 2012-2013 are approximately 19.1% higher than fiscal year 2011-2012. This differential is primarily due to the adjustment of water rates. The fiscal year 2012-2013 budget will begin addressing major capital improvement concerns in the water department. The purchase of a new backhoe is scheduled to be purchased in this budget.

Current Water Rates:

Water Base Rate: \$13.00

Water Volumetric Rate: \$4.00 per 1,000 gallons after the first 2,000 gallons

New Water Rates:

Water Base Rate: \$14.25

Water Volumetric Rate: \$4.50 per 1,000 gallons after the first 2,000 gallons

Sewer Fund - revenues for fiscal year 2012-2013 are approximately 5.8% higher than fiscal year 2011-2012. This differential is primarily due to the adjustment of sewer rates.

Current Sewer Rates:

Sewer Base Rate: \$15.00

Sewer Volumetric Rate: \$4.00 per 1,000 gallons after the first 2,000 gallons

New Sewer Rates:

Sewer base Rate: \$16.25

Sewer Volumetric Rate: \$4.50 per 1,000 gallons after the first 2,000 gallons

These new rates are the result of a recently completed Utility Rate Study conducted to see what our rates need to be to ensure clean, safe and healthy drinking water and wastewater treatment for the citizens of Sawmills.

Justification for rate increases:

- City of Lenoir raising rates on our bulk water/sewer purchases in previous years and going forward,
- addressing future capital improvement needs (replacing 50 year old water lines),
- increasing costs of fuel, chemicals and other materials,
- increasing costs of operating expenses;
- to help maintain a healthy emergency fund for water and sewer line breaks.

Conclusion:

It is with great pride, and a lot of hard work, that we present the Adopted Budget for fiscal year 2012-2013. The total budget estimates for fiscal year 2012-2013 (across all funds) totals \$2,829,936 versus \$2,613,921 for fiscal year 2011-2012. Staff did a great job in realizing the Town's monetary parameters and making adjustments accordingly. General Fund balance percentage is anticipated to improve this year based on the revamping of budget amendment and capital project policies and practices.

Requests for Information

This report is designed to provide an overview of the Town of Sawmills' 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 following:

Town Administrator
Town of Sawmills
Highway 321-A
Sawmills, N.C. 28630
(828) 396-7903

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 1****Statement of Net Assets
June 30, 2012**

	Governmental Activities	Business- type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 3,394,697	\$ 3,481,383	\$ 6,876,080
Restricted cash and cash equivalents	558,794	-	558,794
Taxes receivable, net	113,584	-	113,584
Accounts receivable, water (net)	-	68,592	68,592
Accounts receivable, other (net)	27,671	-	27,671
Due from other governmental agencies	131,989	-	131,989
Inventories	-	93,762	93,762
Total current assets	<u>4,226,735</u>	<u>3,643,736</u>	<u>7,870,472</u>
Capital assets:			
Land, non-depreciable assets and construction in progress	225,239	5,436	230,675
Other capital assets, net of depreciation	<u>2,185,010</u>	<u>4,153,216</u>	<u>6,338,226</u>
Total capital assets	<u>2,410,249</u>	<u>4,158,653</u>	<u>6,568,901</u>
Total assets	<u>\$ 6,636,984</u>	<u>\$ 7,802,389</u>	<u>\$ 14,439,373</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 15,534	\$ 38,762	\$ 54,296
Utility deposits	-	66,888	66,888
Long-term liabilities:			
Due within one year	-	16,381	16,381
Due in more than one year	<u>26,425</u>	<u>111,124</u>	<u>137,549</u>
Total liabilities	<u>41,959</u>	<u>233,155</u>	<u>275,114</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	2,410,249	4,036,331	6,446,580
Restricted for stabilization by state statute	159,660	-	159,660
Restricted for streets	558,794	-	558,794
Unrestricted	<u>3,466,322</u>	<u>3,532,903</u>	<u>6,999,225</u>
Total net assets	<u>\$ 6,595,025</u>	<u>\$ 7,569,234</u>	<u>\$ 14,164,259</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA

Exhibit 2

Statement of Activities For the Year Ended June 30, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contribution	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities:						
General government	\$ 832,473	\$ -	\$ -	\$ -	\$ (832,473)	\$ -
Transportation	466,263	-	148,122	-	(318,141)	-
Environmental protection	254,050	193,575	-	-	(60,475)	-
Cultural and recreational	254,340	3,090	950	-	(250,300)	-
Economic and physical development	37,084	1,625	-	-	(35,459)	-
Interest on long-term debt	2,228	-	-	-	(2,228)	-
Total governmental activities	<u>1,846,438</u>	<u>198,290</u>	<u>149,072</u>	<u>-</u>	<u>(1,499,076)</u>	<u>-</u>
Business-type activities:						
Water and sewer	599,286	643,113	-	43,249	-	87,076
Total business-type activities	<u>599,286</u>	<u>643,113</u>	<u>-</u>	<u>43,249</u>	<u>-</u>	<u>87,076</u>
Total	<u>\$ 2,445,724</u>	<u>\$ 841,403</u>	<u>\$ 149,072</u>	<u>\$ 43,249</u>	<u>(1,499,076)</u>	<u>(1,412,000)</u>
General revenues:						
Ad valorem taxes					461,660	-
Local option sales tax					860,904	-
Unrestricted intergovernmental revenues					279,190	-
Unrestricted investment earnings					8,902	6,707
Miscellaneous					73,339	-
Total general revenues and transfers					<u>1,683,995</u>	<u>6,707</u>
Change in net assets					184,919	93,784
Net assets - beginning					6,410,106	7,475,450
Net assets - ending					<u>\$ 6,595,025</u>	<u>\$ 7,569,234</u>
						<u>13,885,556</u>
						<u>\$ 14,164,259</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 3****Balance Sheet
Governmental Fund
June 30, 2012**

	<u>Major Fund</u>
	<u>General Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$3,394,697
Restricted cash	558,794
Taxes receivable, net	113,584
Accounts receivable, other	27,671
Due from other governmental agencies	<u>131,989</u>
Total assets	<u>\$4,226,735</u>
<u>Liabilities and Fund Balances</u>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 15,534
Deferred revenues	<u>113,584</u>
Total liabilities	<u>129,118</u>
Fund balances:	
Restricted:	
Stabilization by state statute	159,660
Streets	558,794
Unassigned	<u>3,379,163</u>
Total fund balances	<u>4,097,617</u>
Total liabilities and fund balances	<u>\$4,226,735</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA

Exhibit 4

**Reconciliation of the Governmental Fund
Balance Sheet to the Statement of Net Assets
June 30, 2012**

Total governmental fund balances \$4,097,617

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, are not reported
in the funds. 2,410,249

Long-term liabilities and compensated absences are not due and payable in the
current period and, therefore are not reported in the funds (26,425)

Deferred revenues in the governmental funds are used to offset accounts receivable not
expected to be available within 90 days of year end. These receivables are a component
of net assets in the statement of net assets. 113,584

Net assets of governmental activities \$6,595,025

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 5****Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2012**

Major Fund**General
Fund****Revenues:**

Ad valorem taxes	\$ 444,630
Local option sales taxes	860,904
Unrestricted intergovernmental revenues	279,190
Restricted intergovernmental revenues	149,122
Permits and fees	1,675
Sales and services	193,575
Investment earnings	8,902
Miscellaneous	76,380
Total revenues	<u>2,014,377</u>

Expenditures:**Current:**

General government	824,531
Transportation	528,960
Environmental protection	283,052
Cultural and recreational	120,063
Economic and physical development	37,084
Total expenditures	<u>1,793,690</u>

Revenues over (under) expenditures	<u>220,687</u>
Net change in fund balances	<u>220,687</u>

Fund balances, beginning of year	<u>3,876,930</u>
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Fund balances, end of year	<u><u>\$4,097,617</u></u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF SAWMILLS, NORTH CAROLINA

Exhibit 6

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of the Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2012**

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

Net changes in fund balances - total governmental funds \$ 220,687

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 exceeded capital outlay in the current period. (119,478)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.
Change in deferred revenue for tax revenues 16,980

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources or governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of those differences in the treatment of long-term debt.
Principal payments 73,722

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 (6,992)

Total changes in net assets of governmental activities \$ 184,919

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 7****Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Ad valorem taxes	\$ 433,266	\$ 433,266	\$ 444,630	\$ 11,364
Local option sales taxes	697,598	697,598	860,904	163,306
Unrestricted intergovernmental revenues	40,000	40,000	279,190	239,190
Restricted intergovernmental revenues	146,139	146,139	149,122	2,983
Permits and fees	550	550	1,675	1,125
Sales and services	174,418	174,418	193,575	19,157
Investment earnings	13,500	13,500	8,902	(4,598)
Miscellaneous	10,750	10,750	76,380	65,630
Total revenues	<u>1,516,221</u>	<u>1,516,221</u>	<u>2,014,377</u>	<u>498,157</u>
Expenditures:				
Current:				
General government	864,771	864,771	824,531	40,240
Transportation	649,200	649,200	528,960	120,240
Environmental protection	284,200	284,200	283,052	1,148
Cultural and recreational	156,300	156,300	120,063	36,237
Economic and physical development	53,750	53,750	37,084	16,666
Total expenditures	<u>2,008,221</u>	<u>2,008,221</u>	<u>1,793,690</u>	<u>214,531</u>
Revenues over (under) expenditures	<u>(492,000)</u>	<u>(492,000)</u>	<u>220,687</u>	<u>712,688</u>
Other Financing Sources (Uses):				
Appropriated fund balance	<u>492,000</u>	<u>492,000</u>	<u>-</u>	<u>(492,000)</u>
Total other financing sources (uses)	<u>492,000</u>	<u>492,000</u>	<u>-</u>	<u>(492,000)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>220,687</u>	<u>\$ 220,687</u>
Fund balances, beginning of year			<u>3,876,930</u>	
Fund balances, end of year			<u>\$ 4,097,617</u>	

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 8****Statement of Net Assets
Proprietary Funds
June 30, 2012**

	<u>Enterprise Fund Water and Sewer Fund</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 3,481,383
Accounts receivable - water, net	68,592
Inventories	93,762
Total current assets	<u>3,643,737</u>
Capital assets:	
Land and other non-depreciable assets	5,436
Other capital assets, net of depreciation	<u>4,153,216</u>
Capital assets (net)	<u>4,158,652</u>
Total assets	<u>\$ 7,802,389</u>
<u>Liabilities and Fund Equity</u>	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 38,762
Current portion of long-term obligations	16,381
Utility deposits	66,888
Total current liabilities	<u>122,031</u>
Noncurrent liabilities:	
Compensated absences payable	5,184
General obligation of notes payable - noncurrent	<u>105,940</u>
Total noncurrent liabilities	<u>111,124</u>
Total liabilities	<u>233,155</u>
Net assets:	
Invested in capital assets, net of related debt	4,036,331
Unrestricted	<u>3,532,903</u>
Total net assets	<u>\$ 7,569,234</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 9****Statement of Revenues, Expenses and
Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2012**

	<u>Enterprise Fund Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 625,304
Taps and connections	2,000
Other operating revenues	<u>15,810</u>
Total operating revenues	<u>643,113</u>
Operating Expenses:	
Water distribution	373,004
Sewer collection	105,100
Depreciation	<u>121,183</u>
Total operating expenses	<u>599,286</u>
Operating income (loss)	<u>43,827</u>
Nonoperating Revenues (Expenses):	
Interest on investments	<u>6,708</u>
Total nonoperating revenues (expenses)	<u>6,708</u>
Net income (loss) before contributions	<u>50,535</u>
Capital contributions	<u>43,249</u>
Changes in net assets	93,784
Net assets - beginning of year	<u>7,475,450</u>
Net assets - end of year	<u><u>\$ 7,569,234</u></u>

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 10
Page 1 of 2****Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012**

**Enterprise Fund
Water and
Sewer
Fund****Cash Flows From Operating Activities:**

Cash received from customers	\$ 665,341
Cash paid for goods and services	(387,180)
Cash paid to employees for services	(80,119)
Customer deposits received	<u>1,376</u>
Net cash provided (used) by operating activities	<u>199,418</u>

Cash Flows From Capital Related Financing Activities:

Acquisition and construction of capital assets	(45,560)
Principal paid on general obligation notes payable	(16,380)
Capital contributions	<u>43,249</u>
Net cash provided (used) by capital and related financing activities	<u>(18,691)</u>

Cash Flows From Investing Activities:

Interest on investments	<u>6,708</u>
Net increase (decrease) in cash and cash equivalents	187,435
Cash and cash equivalents - beginning of year	<u>3,293,948</u>
Cash and cash equivalents - end of year	<u>\$ 3,481,383</u>

cont.

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 10, cont.
Page 2 of 2****Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012**

**Enterprise Fund
Water and
Sewer
Fund****Reconciliation of Operating Income (Loss) to Net Cash
Provided (Used) by Operating Activities:**

Operating income (loss)	\$ <u>43,827</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	121,183
Change in assets and liabilities:	
(Increase) decrease in receivables	22,227
Increase (decrease) in inventory	(2,874)
Increase (decrease) in accounts payable and accrued expenses	13,926
Increase (decrease) in customer deposits	1,376
Increase (decrease) in compensated absences payable	<u>(247)</u>
Total adjustments	<u>155,591</u>
Net cash provided (used) by operating activities	<u>\$ 199,418</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Sawmills 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 Sawmills is a municipal corporation which is governed by an elected mayor and a five member council.

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expense and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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 subsidies result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

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 that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and State-shared revenues. The primary expenditures are for street maintenance and construction, and sanitation services, and general governmental services.

The Town reports the following major enterprise fund:

Water and Sewer Fund - This fund is used to account for the Town's water and sewer operations.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Caldwell County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the County including the Town of Sawmills. For those motor vehicles registered under the staggered system and for vehicles newly registered under the annual 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 Caldwell County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that 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 utilizes 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 by general revenues.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989, that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

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 Enterprise Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Enterprise Capital Projects Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities and Fund Equity

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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

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. The Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Ad Valorem Taxes Receivable

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

Allowances for Doubtful Accounts

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

Inventory and Prepaid Items

The inventories of the Town are maintained for all enterprise fund (Water and Sewer Fund) supplies. They are valued at the lower of cost (first-in, first-out) or market. The cost of these inventories is expensed when consumed rather than when purchased.

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$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 after July 1, 2003, consist of the road network and water and sewer system assets and are reported at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated on a straight-line basis over the following useful lives to the cost of the assets:

	<u>Years</u>
General governmental infrastructure - roads	45
Water and sewer infrastructure	30-45
Buildings	45
Furniture and office equipment	7
Equipment and vehicles	5-7
Computers/software	3

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

Long-Term Obligations

In the government-wide financial statements, and 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, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The Town's long-term debt for water and sewer system improvements is carried within the Enterprise Fund. The debt service requirements for that debt are being met by service revenues, but the taxing power of the Town is pledged to make these payments if water and sewer revenues should ever be insufficient.

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

Net Assets/Fund Balances

Net Assets

Net assets in government-wide and proprietary fund 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 laws or regulations of other governments or imposed by law through state statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

Nonspendable 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.

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, 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 Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Sawmills' governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Assigned Fund Balance - portion of fund balance that Town of Sawmills intends to use for specific purposes.

Subsequent Year's Expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

The Town of Sawmills has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city 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 policy if it is in the best interest of the Town.

II. Stewardship, Compliance and Accountability

None.

III. Detail Notes on All Funds

A. Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's 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 agents 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 policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2012, the Town's deposits had a carrying amount of \$7,364,725 and a bank balance of \$7,284,791. Of the bank balance, \$500,000 was covered by federal depository insurance and \$6,784,791 was covered by collateral held under the pooling method.

Investments

At June 30, 2012, the Town of Sawmills had \$70,149 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 formal policy regarding credit risk.

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

Receivables - Allowances for Doubtful Accounts

The receivables shown in Exhibit 1 at June 30, 2012 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 27,671	\$121,584	\$131,989	\$281,244
Allowance for doubtful accounts	<u>-</u>	<u>(8,000)</u>	<u>-</u>	<u>(8,000)</u>
Total - governmental activities	<u>\$ 27,671</u>	<u>\$113,584</u>	<u>\$131,989</u>	<u>\$273,244</u>
Business-type Activities:				
Water and sewer	\$ 71,286	\$ -	\$ 5,333	\$ 76,619
Allowance for doubtful accounts	<u>(2,500)</u>	<u>-</u>	<u>-</u>	<u>(2,500)</u>
Total - business-type activities	<u>\$ 68,786</u>	<u>\$ -</u>	<u>\$ 5,333</u>	<u>\$ 74,119</u>

Due from other governments consists of the following:

Local option sales tax	\$ 73,107
Utility franchise tax	45,156
Other	<u>19,059</u>
	<u>\$137,322</u>

Capital Assets

A summary of changes in the Town's governmental capital assets follows:

	<u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	<u>\$225,239</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$225,239</u>
Capital assets being depreciated:				
Buildings	\$ 346,765	\$ -	\$ -	\$ 346,765
Improvements (other than buildings)	11,708	7,392	-	19,100
Machinery and equipment	138,145	18,266	-	156,411
Office equipment	69,208	-	30,283	38,925
Parks	2,418,136	-	-	2,418,136
Vehicles	<u>685,667</u>	<u>80,922</u>	<u>7,599</u>	<u>758,990</u>
Total capital assets being depreciated	<u>3,669,628</u>	<u>106,580</u>	<u>37,882</u>	<u>3,738,326</u>

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

	<u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
Governmental Activities - continued:				
Less accumulated depreciated for:				
Buildings	\$ 128,789	\$ 7,706	\$ -	\$ 136,495
Other improvements	8,454	811	-	9,265
Machinery and equipment	171,994	14,323	-	186,317
Office equipment	69,208	-	30,283	38,925
Parks	495,616	147,598	-	643,214
Vehicles	<u>491,079</u>	<u>55,620</u>	<u>7,599</u>	<u>539,100</u>
Total accumulated depreciation	<u>1,365,140</u>	<u>\$226,058</u>	<u>\$37,882</u>	<u>1,553,316</u>
Total capital assets being depreciated, net	<u>2,304,488</u>			<u>2,185,010</u>
Governmental activity capital assets, net	<u>\$2,529,727</u>			<u>\$2,410,249</u>

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

Governmental Activities:	
General government	\$ 8,342
Environmental protection	46,948
Cultural and recreational	152,543
Transportation	<u>18,225</u>
Total depreciation expense	<u>\$226,058</u>

Proprietary Capital Assets

The capital assets of the Proprietary Fund of the Town at June 30, 2012 are as follows:

	<u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
Business-type Activities:				
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 5,436	\$ -	\$ -	\$ 5,436
Total capital assets not being depreciated	<u>5,436</u>	<u>-</u>	<u>-</u>	<u>5,436</u>
Capital assets being depreciated:				
Water distribution system	2,423,431	-	-	2,423,431
Sewer lines	3,212,973	-	-	3,212,973
Equipment	89,150	31,638	17,330	103,458
Vehicles	<u>33,211</u>	<u>13,922</u>	<u>-</u>	<u>47,133</u>
Total capital assets being depreciated	<u>5,758,765</u>	<u>45,560</u>	<u>17,330</u>	<u>5,786,995</u>
Less accumulated depreciation for:				
Water distribution system	767,088	48,444	-	815,532
Sewer lines	646,262	64,259	-	710,521
Equipment	89,005	3,880	17,330	75,555
Vehicles	<u>27,571</u>	<u>4,600</u>	<u>-</u>	<u>32,171</u>
Total accumulated depreciation	<u>1,529,926</u>	<u>\$121,183</u>	<u>\$17,330</u>	<u>1,633,779</u>
Total capital assets being depreciated, net	<u>4,228,839</u>			<u>4,153,216</u>
Water and Sewer fund capital assets, net	<u>\$4,234,275</u>			<u>\$4,158,652</u>

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2012 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental activities:				
General	<u>\$14,835</u>	<u>\$699</u>	<u>\$ -</u>	<u>\$15,534</u>
Business-type activities:				
Water and sewer	<u>\$38,762</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$38,762</u>

Pension Plan and Postemployment Obligations

Local Government Employees' Retirement System

Plan Description - The Town of Sawmills contributes to the statewide Local Government 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 six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees is 9.99% of annual covered payroll. The contribution requirements of members and of the Town of Sawmills are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$42,209, \$35,712, and \$29,324, respectively. The contributions made by the Town equaled the required contributions for each year.

Other Post-Employment Benefits

The Town has not elected to provide other post-employment benefits to employees.

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

Deferred Revenues

The balance in deferred revenues on the fund statements at June 30, 2013 is composed of the following elements:

	<u>Deferred Revenue</u>
Taxes receivables (net)	<u>\$113,584</u>

Risk Management

The Town of Sawmills is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance coverage for risks of loss including property insurance of up to \$1,786,278; liability coverage of up to \$2,000,000; and worker's compensation up to the statutory limits. There have been no significant reductions in insurance coverage from the previous year and settled claims resulting from risks have not exceeded coverage commercial insurance coverage in the last five fiscal years.

The Town does not carry flood insurance.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$50,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

TOWN OF SAWMILLS, NORTH CAROLINA

**Notes to the Financial Statements
For the Year Ended June 30, 2012**

Long-Term Obligations

Notes Payable

Notes payable at June 30, 2012 are comprised of the following individual agreements:

Business-type Activities:

Agreement to purchase water lines, requiring monthly payments of \$875 with no interest through January 2014	\$ 16,469
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Federal revolving loan for waterline capital project, annual payments of \$5,881, with no interest through May 2030	<u>105,852</u>
	122,321

Less current maturities	<u>16,381</u>
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Long term portion	<u><u>\$105,940</u></u>
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Annual debt service requirements to maturity for the Town's notes payable are as follows:

	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 16,381	\$ -
2014	11,850	-
2015	5,881	-
2016	5,881	-
2017	5,881	-
Thereafter	<u>76,447</u>	<u>-</u>
Total proprietary funds	<u><u>\$122,321</u></u>	<u><u>\$ -</u></u>

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

A summary of changes in long-term obligations follows:

	<u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>	<u>Current Portion</u>
Governmental activities:					
Notes payable	\$ 73,722	\$ -	\$73,722	\$ -	\$ -
Accrued vacation pay	<u>19,433</u>	<u>6,992</u>	<u>-</u>	<u>26,425</u>	<u>-</u>
Total	<u>\$ 93,155</u>	<u>\$6,992</u>	<u>\$73,722</u>	<u>\$ 26,425</u>	<u>\$ -</u>
Business-type activities:					
Notes payable	\$138,701	\$ -	\$16,381	\$122,320	\$16,381
Accrued vacation pay	<u>5,431</u>	<u>-</u>	<u>247</u>	<u>5,184</u>	<u>-</u>
Total	<u>\$144,132</u>	<u>\$ -</u>	<u>\$16,628</u>	<u>\$127,504</u>	<u>\$16,381</u>

Compensated absences typically have been liquidated in the General Fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned.

At June 30, 2012, Town of Sawmills had a legal debt margin of \$16,484,247.

Fund Balance

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total fund balance-General Fund	\$4,097,617
Less:	
Stabilization by State Statute	159,660
Streets-Powell Bill	558,794
Remaining Fund Balance	3,379,163

The Town of Sawmills has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 33% of budgeted expenditures.

III. Jointly Governed Organization

The Town, in conjunction with four counties and twenty-three other municipalities established the Western Piedmont Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid \$2,562 for membership fees during the fiscal year ended June 30, 2012.

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2012

IV. 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 moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

V. Subsequent Event

Management has evaluated subsequent events through October 19, 2012, the date on which the financial statements were available to be issued. During the period from the end of the year and through this date, no circumstances occurred that require recognition or disclosure in these financial statements.

TOWN OF SAWMILLS, NORTH CAROLINA

Schedule 1
Page 1 of 3

**General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2012
With Comparative Actual Amounts For the Year Ended June 30, 2011**

	<u>2012</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2011 Actual</u>
Revenues:				
Ad valorem taxes:				
Taxes	\$ 431,166	\$ 439,375		\$ 418,694
Penalties and interest	2,100	5,255		4,568
	<u>433,266</u>	<u>444,630</u>	\$ 11,364	<u>423,261</u>
Other taxes and licenses:				
Local option sales tax	<u>697,598</u>	<u>860,904</u>	<u>163,306</u>	<u>801,256</u>
Unrestricted intergovernmental revenues:				
Franchise tax	<u>40,000</u>	<u>279,190</u>	<u>239,190</u>	<u>111,794</u>
Restricted intergovernmental revenues:				
"State Street-Aid" allocation and other grants	<u>146,139</u>	<u>149,122</u>	<u>2,983</u>	<u>143,127</u>
Permits and fees:				
Zoning permits	<u>550</u>	<u>1,675</u>	<u>1,125</u>	<u>667</u>
Sales and services:				
Refuse collections	<u>174,418</u>	<u>193,575</u>	<u>19,157</u>	<u>112,597</u>
Investment earnings	<u>13,500</u>	<u>8,902</u>	<u>(4,598)</u>	<u>15,710</u>
Miscellaneous revenues	<u>10,750</u>	<u>76,380</u>	<u>65,630</u>	<u>44,536</u>
Total revenues	<u>1,516,221</u>	<u>2,014,377</u>	<u>498,156</u>	<u>1,652,947</u>
Expenditures:				
General government:				
Governing body:				
Salaries and employee benefits	14,400	13,833		10,234
Election cost	3,750	3,392		-
Other operating expenditures	<u>14,000</u>	<u>6,865</u>		<u>7,048</u>
Total governing body	<u>32,150</u>	<u>24,090</u>	<u>8,060</u>	<u>17,282</u>

cont.

TOWN OF SAWMILLS, NORTH CAROLINA

Schedule 1, cont.
Page 2 of 3

General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2012
With Comparative Actual Amounts For the Year Ended June 30, 2011

	<u>2012</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>	<u>2011</u> <u>Actual</u>
Expenditures (continued):				
Administrative:				
Salaries and employee benefits	\$ 173,450	\$ 172,715		\$ 151,657
Other operating expenditures	196,950	170,937		229,286
Interlocal agreement	400,000	400,000		400,000
Total administrative	<u>770,400</u>	<u>743,652</u>	<u>\$ 26,748</u>	<u>780,943</u>
Finance:				
Salaries and employee benefits	56,600	54,110		52,047
Other operating expenditures	5,621	2,679		1,804
Total finance	<u>62,221</u>	<u>56,789</u>	<u>5,432</u>	<u>53,851</u>
Total general government	<u>864,771</u>	<u>824,531</u>	<u>40,240</u>	<u>852,075</u>
Transportation:				
Salaries and employee benefits	156,050	148,379		161,199
Other operating expenditures	377,150	283,491		108,225
Capital outlay	116,000	97,090		8,299
Total transportation	<u>649,200</u>	<u>528,960</u>	<u>120,240</u>	<u>277,723</u>
Environmental protection:				
Sanitation:				
Salaries and employee benefits	89,200	88,259		82,762
Other operating expenditures	135,000	134,522		127,732
Capital outlay	-	-		1,736
Total sanitation	<u>224,200</u>	<u>222,780</u>	<u>1,420</u>	<u>212,230</u>
Recycling:				
Contracted services	<u>60,000</u>	<u>60,272</u>	<u>(272)</u>	<u>59,134</u>
Total environmental protection	<u>284,200</u>	<u>283,052</u>	<u>1,148</u>	<u>271,364</u>

cont.

TOWN OF SAWMILLS, NORTH CAROLINA**Schedule 1, cont.
Page 3 of 3**

**General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2012
With Comparative Actual Amounts For the Year Ended June 30, 2011**

	<u>2012</u>		<u>Variance</u>	<u>2011</u>
	<u>Budget</u>	<u>Actual</u>	<u>Positive</u> <u>(Negative)</u>	<u>Actual</u>
Expenditures (continued):				
Economic and physical development:				
Planning and zoning:				
Other operating expenditures	\$ 53,750	\$ 37,084	\$ 16,666	\$ 20,101
Cultural and recreational:				
Parks and recreation:				
Salaries and employee benefits	56,600	49,804		41,573
Other operating expenditures	99,700	70,259		446,204
Total cultural and recreational	156,300	120,063	36,237	487,777
Total expenditures	2,008,221	1,793,690	214,531	1,909,040
Revenues over (under) expenditures	(492,000)	220,687	712,687	(256,093)
Other Financing Sources (Uses):				
Operating transfers in (out):				
Fund balance appropriated	492,000	-	(492,000)	-
Total other financing sources (uses)	492,000	-	(492,000)	-
Excess of revenues and other sources over (under) expenditures and other uses	\$ -	220,687	\$ 220,687	(256,093)
Fund balance, beginning of year		3,876,930		4,133,023
Fund balance, end of year		\$4,097,617		\$ 3,876,930

TOWN OF SAWMILLS, NORTH CAROLINA**Schedule 2
Page 1 of 2**

Water and Sewer Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance Positive (Negative)	2011 Actual
	Budget	Actual		
Revenues:				
Operating revenues:				
Charges for services		\$ 625,304		\$ 662,185
Taps and connections		2,000		1,500
Other operating revenues		<u>15,810</u>		<u>17,496</u>
Total operating revenues	\$ 552,100	<u>643,113</u>	\$ 91,013	<u>681,180</u>
Non-operating revenues:				
Interest on investments		<u>6,708</u>		<u>13,433</u>
Total non-operating revenues	<u>53,600</u>	<u>6,708</u>	<u>(46,892)</u>	<u>13,433</u>
Total revenues	<u>605,700</u>	<u>649,822</u>	<u>44,122</u>	<u>694,614</u>
Expenditures:				
Water distribution:				
Water purchases		209,644		214,296
Salaries and employee benefits		75,215		61,760
Other operating expenditures		87,899		126,278
Principal retirement		<u>16,381</u>		<u>16,381</u>
Total water distribution	465,100	<u>389,139</u>	75,961	<u>418,715</u>
Sewer collection:				
Sewer charges		12,338		11,842
Salaries and employee benefits		64,689		61,920
Other operating expenditures		<u>28,073</u>		<u>19,507</u>
Total sewer collection	<u>140,600</u>	<u>105,100</u>	<u>35,500</u>	<u>93,269</u>
Total expenditures	<u>605,700</u>	<u>494,238</u>	<u>111,462</u>	<u>511,984</u>
				cont.

TOWN OF SAWMILLS, NORTH CAROLINA**Schedule 2, cont.
Page 2 of 2****Water and Sewer Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011**

	<u>2012</u>		<u>Variance Positive (Negative)</u>	<u>2011 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Revenues and over (under) expenditures	<u>\$ -</u>	<u>\$ 155,583</u>	<u>\$ 155,583</u>	<u>\$ 182,630</u>
Reconciliation From Budgetary Basis (Modified Accrual) to Full Accrual:				
Revenues over (under) expenditures		\$ 155,583		\$ 182,630
Reconciling items:				
Payment on debt principal		16,381		16,381
Increase (decrease) in accrued compensated absences		(245)		171
Capital projects		43,249		(43,493)
Depreciation		<u>(121,183)</u>		<u>(112,469)</u>
Net income (loss)		<u>\$ 93,784</u>		<u>\$ 43,219</u>

TOWN OF SAWMILLS, NORTH CAROLINA**Schedule 3****Commerce Grant Capital Project Fund**
Schedule of Revenues, Expenditures and Other Financing Sources (Uses) -
Budget and Actual
From Inception and For the Year Ended June 30, 2012

	<u>Project</u> <u>Authorization</u>	<u>Prior</u> <u>Year</u>	<u>Actual</u> <u>Current</u> <u>Year</u>	<u>Total</u> <u>to Date</u>
Revenues:				
Grants	\$ 189,218	\$ 284,874	\$ 77,562	\$ 362,436
Total revenues	<u>189,218</u>	<u>284,874</u>	<u>77,562</u>	<u>362,436</u>
Expenditures:				
Professional fees - legal	-	2,151	-	2,151
Professional fees - engineer	-	23,445	-	23,445
Grants	-	145,656	27,562	173,218
Construction	<u>217,625</u>	<u>187,623</u>	<u>-</u>	<u>187,623</u>
Total expenditures	<u>217,625</u>	<u>358,875</u>	<u>27,562</u>	<u>386,436</u>
Revenues over (under) expenditures	<u>(28,407)</u>	<u>(74,001)</u>	<u>50,000</u>	<u>(24,001)</u>
Other Financing Sources (Uses):				
Transfers	<u>28,407</u>	<u>24,001</u>	<u>-</u>	<u>24,001</u>
Total other financing sources (uses)	<u>28,407</u>	<u>24,001</u>	<u>-</u>	<u>24,001</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ 50,000</u>	<u>\$ -</u>

TOWN OF SAWMILLS, NORTH CAROLINA

Schedule 4

**Schedule of Ad Valorem Taxes Receivable
June 30, 2012**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2011</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2012</u>
2011 - 2012	\$ -	\$ 473,332	\$ 428,220	\$ 45,112
2010 - 2011	47,239	-	18,275	28,964
2009 - 2010	19,334	-	4,352	14,982
2008 - 2009	9,147	-	1,498	7,649
2007 - 2008	7,144	-	1,376	5,768
2006 - 2007	5,388	-	957	4,431
2005 - 2006	4,278	-	748	3,530
2004 - 2005	2,147	-	137	2,010
2003 - 2004	2,565	-	102	2,463
2002 - 2003	5,692	-	65	5,627
2001 - 2002	1,670	-	622	1,048
	<u>\$ 104,604</u>	<u>\$ 473,332</u>	<u>\$ 456,352</u>	121,584
Less allowance for uncollectible accounts:				
General fund				<u>8,000</u>
Ad valorem taxes receivable - net				<u>\$ 113,584</u>
Reconcilement with revenues:				
Taxes - Ad Valorem, General				\$ 444,630
Penalties and interest collected				(5,255)
Discounts and miscellaneous adjustments				16,355
Amount written off				<u>622</u>
				<u>\$ 456,352</u>

TOWN OF SAWMILLS, NORTH CAROLINA

Schedule 5

Analysis of Current Tax Levy Town - Wide Levy For the Year Ended June 30, 2012

	Town Wide			Total Levy	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxes at current year rate	\$ 232,531,000	0.20	\$ 465,062	\$ 407,158	\$ 57,904
Penalties	-		266	266	-
Total	232,531,000		465,328	407,424	57,904
Discoveries	4,002,000		8,004	8,004	-
Abatements	-		-	-	-
Total property valuation	<u>\$ 236,533,000</u>				
Net levy			473,332	415,428	57,904
Uncollected taxes at June 30, 2012			45,112	33,694	11,418
Current year's tax collected			<u>\$ 428,220</u>	<u>\$ 381,734</u>	<u>\$ 46,486</u>
Current levy collection percentage			<u>90.47%</u>	<u>91.89%</u>	<u>80.28%</u>

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**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Sawmills, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town of Sawmills, North Carolina's basic financial statements and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Town of Sawmills, North Carolina is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Sawmills, North Carolina'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 Town of Sawmills, North Carolina's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Sawmills, North Carolina's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Inadequate Segregation of Duties

The size of the Town's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. The Mayor and Town Council should remain involved in the financial affairs of the Town to provide oversight.

Inadequate Design of Internal Control Over the Preparation of the Financial Statements Being Audited

Lowdermilk Church & Co., LLP (independent auditors) prepared the draft financial statements for the Town of Sawmills, North Carolina. As with most smaller governmental units, this becomes necessary due to the cost benefit of either out-sourcing or hiring personnel with the expertise to prepare financial statements in conformity with generally accepted accounting principles. The Mayor and Town Council feel that the cost benefit of having the financial statements prepared by the independent auditor precludes the cost of hiring additional personnel.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Sawmills, North Carolina'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.

This report is intended solely for the information and use of management, Town Council, others within the entity, and 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.



October 19, 2012