

TOWN OF SUMMERFIELD
SUMMERFIELD, NORTH CAROLINA

Financial Statements
Year Ended June 30, 2010

Town of Summerfield, North Carolina

TOWN COUNCIL

Mark Brown	Mayor
Dena Barnes	Mayor Pro-Tem
John Wray	Councilperson
Bob Williams	Councilperson
Alicia Flowers	Councilperson
Becky Strickland	Councilperson

TOWN OFFICIALS

Mark Brown	Mayor
Dena Barnes	Mayor Pro-Tem
Michael Brandt	Town Manager
Dana Luther	Finance Officer
William Hill	Town Attorney
Valorie Halvorsen	Town Clerk

TOWN OF SUMMERFIELD, NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Summerfield, North Carolina, as of and for the year ended June 30, 2010, 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 Summerfield's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Summerfield, North Carolina, as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2010 on our consideration of Town of Summerfield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulation, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Summerfield's basic financial statements. The introductory section, individual fund statements and schedules and other schedules listed in the table of contents are presented for purposes of additional analysis are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States, the Town of Summerfield's basic financial statements for the year ended June 30, 2009, which are not presented with the accompanying financial statements. In our report dated November 23, 2009, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund. In our opinion, the 2009 accompanying supplementary information, and individual fund financial statement is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2009, taken as a whole.

Fouse, Fouse, Penn & Fouse LLP
Certified Public Accountants

November 23, 2010

Eden, North Carolina

Management's Discussion and Analysis

Management's Discussion and Analysis is designed to highlight important financial matters, provide a summary of financial activity, recognize changes in financial position, and identify individual fund issues or concerns. This narrative and analysis of the Town of Summerfield's (the Town) performance through June 30, 2010 is provided as a supplement to the Town's fiscal year-end financial statements. Please read it in conjunction with the Town's financial statements and notes to the financial statements that follow.

OVERVIEW OF THE TOWN OF SUMMERFIELD

The Town of Summerfield was incorporated in 1996. The Town is governed by an elected mayor and five-member Town Council. Effective with the November 2005 election, the mayor is elected every two years directly by the voters. Council members serve four-year staggered terms. A voter referendum in 2007 changed the form of government from Mayor/Council to Council/Manager. In addition to the Town Council and staff, there are many volunteer committees that serve the Town.

FINANCIAL HIGHLIGHTS

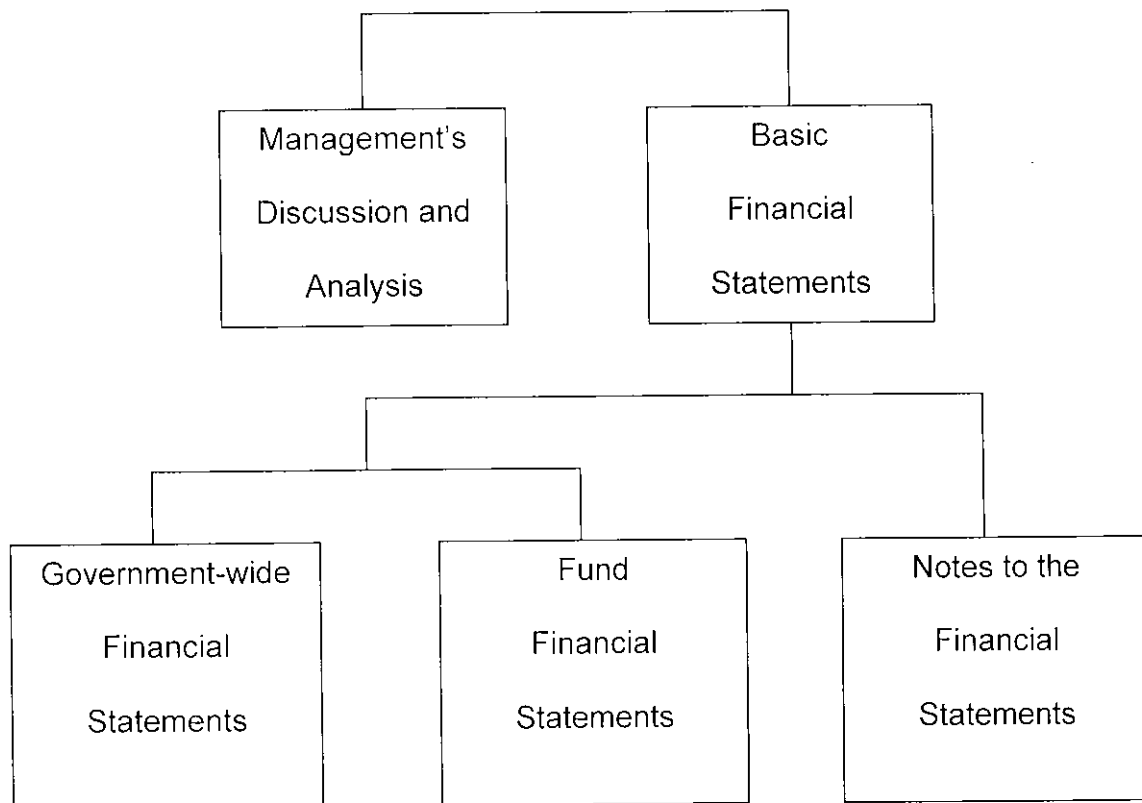
- The assets of the Town of Summerfield exceeded its liabilities at the close of the fiscal year by \$12,943,716.
- The government's total net assets increased by \$244,005, primarily due to the construction of Phase II of the Summerfield Community Park and the Summerfield Athletic Park as general fund revenues exceeded expenditures net of capital outlays.
- As of the close of the current fiscal year, the Town of Summerfield's governmental funds reported combined ending fund balances of \$7,319,256, a decrease of \$2,029,382 from the prior year. Approximately ninety-one percent of this total amount, or \$6,658,761, is available for spending at the government's discretion.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$6,658,761, or 218 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 Town of Summerfield's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Summerfield.

Required Components of Annual Financial Report

Figure 1



Summary → Detail

Basic Financial Statements

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

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

The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes 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's financial status as a whole.

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

The Statement of Net Assets includes all of the Town's assets and liabilities and provides information about the amounts invested in capital assets and the obligations to the Town's creditors. The statement is presented in the format where assets, minus liabilities, equals "Net Assets", formerly known as equity. It also provides a basis of assessing the liquidity and financial flexibility of the Town. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current". The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is to present the net available liquid (non-capital) assets, net of liabilities, for the entire Town. Net Assets are reported in three broad categories:

Net Assets, Invested in Capital Assets consists of all capital assets net of depreciation.

Restricted Net Assets consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Management Discussion and Analysis
Town of Summerfield

Unrestricted Net Assets consists of those assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

The Statement of Revenues, Expenditures, and Changes in Fund Balance (comparable to an Income Statement) includes Revenues, such as ad valorem taxes and investment earnings, and Expenditures, such as general government and planning and zoning. The focus of this statement is the "Change in Fund Balance", which is similar to Net Income or Loss.

Fund Financial Statements: The fund financial statements (see Figure 2) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Summerfield, 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 Summerfield can be divided into one category: governmental funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Town of Summerfield's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash, and what monies are available at year-end for spending in the subsequent 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 in determining if there are more or less financial resources available to finance the Town's programs. The relationship between governmental 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 Summerfield 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 Council about which services to provide and how to pay for those services. The budget also authorizes the Town to obtain funds from identified sources to finance 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 Council; 2) the final budget as amended by the Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4)

Management Discussion and Analysis
Town of Summerfield

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.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 18-28 of this report.

Government-Wide Financial Analysis

The Town of Summerfield's Net Assets

Figure 2

	2010	2009
Current and other assets	\$ 7,674,054	\$ 9,476,796
Capital assets	5,642,052	3,363,558
Total assets	<u>13,316,106</u>	<u>12,840,354</u>
Long-term liabilities outstanding	18,877	17,404
Other liabilities	353,513	123,239
Total liabilities	<u>372,390</u>	<u>140,643</u>
Net assets:		
Invested in capital assets	5,642,052	3,363,558
Restricted	3,528	5,119
Unrestricted	7,298,136	9,331,034
Total net assets	<u>\$ 12,943,716</u>	<u>\$ 12,699,711</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 Summerfield exceeded liabilities by \$12,943,716 as of June 30, 2010. The Town's net assets increased by \$244,005 for the fiscal year ended June 30, 2010; however, a portion (43.59%) of total net assets reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Summerfield uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Town of Summerfield's net assets totaling \$3,528 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,298,136 is unrestricted.

Town of Summerfield Changes in Net Assets

Figure 3

	2010	2009
Revenues		
Program revenues		
Charges for services	20,244	16,083
Operating grants and contributions	1,192	4,955
Capital grants and contributions	116,740	370,385
General revenues		
Property taxes	26,589	436,879
Intergovernmental allocations	475,556	520,338
Other taxes and licenses	13,585	13,210
Investment Earnings	365,729	382,213
Other	3,385	621
Total revenues	1,023,020	1,744,684
Expenditures		
General government	348,517	351,818
Public safety	17,039	22,392
Planning and zoning	193,407	164,823
Transportation	6,000	-
Community Relations	27,975	25,668
Historical Commission	2,886	3,810
Culture and recreation	183,191	151,692
Total expenses	779,015	720,203
Increase in net assets	244,005	1,024,481
Net assets, July 1	12,699,711	11,675,230
Net assets, June 30	12,943,716	12,699,711

Governmental activities - Governmental activities increased the Town's net assets by \$244,055, thereby accounting for the total growth in the net assets of the Town of Summerfield. Several particular aspects of the Town's financial operations affected the growth:

- The Town of Summerfield did not levy an ad valorem property tax for the fiscal year ended June 30, 2010 in comparison to \$.035 per \$100 of assessed value for the fiscal year ended June 30, 2009, \$.039 for the fiscal years ended June 30, 2008 and 2007, \$.05 for the fiscal year ended June 30, 2006, and \$.105 for the fiscal year ended June 30, 2005.
- With the enactment of a property tax in the fiscal year ended June 30, 2005, the Town was once again participating in sales tax revenue sharing with Guilford County and other local municipalities in the fiscal year ended June 30, 2006. The drop in the property tax rate in the fiscal year ended June 30, 2009, increases in the rates of other municipalities, and the current economic

Management Discussion and Analysis Town of Summerfield

downturn resulted in the Town receiving \$93,741 in the current fiscal year in comparison to approximately \$120,249 in the prior fiscal year.

- Despite a continued decline in investment rates during the current fiscal year and despite a reduced fund balance, the pursuit of long-term investments without early withdrawal penalties several years ago contributed to only a 4.31% reduction in investment earnings from the prior year.
- Capital grants and contributions decreased as Summerfield Community Park (SCP) was completed during the current fiscal year. Parks and Recreation Trust Fund amounts received in the current fiscal year were \$61,495 in comparison to \$293,930 in the prior fiscal year.

Financial Analysis of the Town's Funds

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

Governmental Funds - The focus of the Town of Summerfield'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 Summerfield's 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 Summerfield. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$6,658,761, while total fund balance was \$7,319,256, a 21.71% decrease from the prior year. 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 218 percent of total General Fund expenditures while total fund balance represents 240 percent of that same amount.

General Fund Budgetary Highlights: During the fiscal year, the Town 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town of Summerfield's investment in capital assets for its governmental activities as of June 30, 2010, totals \$5,642,052 (net of accumulated depreciation). These assets include buildings, land, machinery, and equipment.

Management Discussion and Analysis
Town of Summerfield

Major capital asset transactions during the year included the following:

- The completion of Phase II and small project construction at the Summerfield Community Park in the amount of \$124,535
- The continuing construction of active recreation facilities at the Summerfield Athletic Park (SAP) in the amount of \$2,216,229
- The construction of a rain garden in Phase II of SCP with the assistance of a \$5,000 grant from the North Carolina Department of Environment and Natural Resources
- Annual depreciation expense of \$75,416

Town of Summerfield's Capital Assets

Figure 4

(net of depreciation)

	Governmental Activities 2010	Governmental Activities 2009
Land	1,350,385	1,350,385
Buildings and improvements	403,264	306,514
Land improvements	1,320,441	497,219
Vehicles	2,220	4,256
Office Furniture and Equipment	69,172	46,158
Construction in progress	2,496,570	1,159,026
Total	5,642,052	3,363,558

Additional information on the Town's capital assets can be found in Note II of the Basic Financial Statements.

Debt Administration

For the fiscal years ended June 30, 2010 and June 30, 2009, the Town of Summerfield had no debt outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following key economic indicators and budget highlights reflect the growth and prosperity of the Town of Summerfield for the fiscal year ending June 30, 2011:

- The Town will once again levy a property tax of \$.035 per \$100 of assessed value for the fiscal year ending June 30, 2011. A slight decrease of less than one percent is expected in the tax base as motor vehicle values are anticipated to decline for the second year in a row.
- Investment earnings are only projected to decrease by approximately \$5,729 as a result of a reduction in fund balance as parks and recreation construction continues.
- The Town will use a combination of revenues and fund balance to finance programs currently in place and to construct facilities for parks and recreation.
- Despite a budgeted use of \$69,189 of fund balance during the fiscal year ending June 30, 2011, fund balance will remain over \$7.2 million and over 600% of estimated general fund expenditures excluding parks and recreation capital outlay.
- The Town will continue to receive a private foundation parks and recreation grant of \$50,000.
- Budgeted expenditures in the General Fund are expected to decrease from \$3,056,036 to \$1,429,089 with the completion of SCP in the current fiscal year and the construction of SAP nearing completion.
- Encumbered amounts of \$509,067, primarily related to SAP construction, remained at June 30, 2010 requiring a budget amendment in the next fiscal year to the budgeted expenditures referenced above.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the Town of Summerfield's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed by mail to the Town Manager, Michael Brandt, Town of Summerfield, Post Office Box 970, Summerfield, NC 27358, by telephone at (336) 643-8655, or by e-mail at mbrandt@summerfieldgov.com.

Town of Summerfield
Statement of Net Assets
June 30, 2010

Exhibit 1

ASSETS

Governmental
Activities

Current assets:	
Cash and investments	7,524,869
Receivables:	
Taxes receivable (net)	1,285
Accounts receivable (net)	6,725
Due from other governments	139,536
Prepaid Items	1,639
Total current assets	7,674,054
Capital assets:	
Land and other nondepreciable assets	3,846,955
Other capital assets, net of depreciation	1,795,097
Total capital assets	5,642,052
Total assets	13,316,106

LIABILITIES

Current liabilities:	
Accounts payable and accrued liabilities	353,513
Long-term liabilities:	
Due within one year	18,877
Total liabilities	372,390

NET ASSETS

Invested in capital assets	5,642,052
Restricted	3,528
Unrestricted	7,298,136
Total net assets	12,943,716

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

Town of Summerfield
Statement of Activities
For the Year Ended June 30, 2010

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net Expense (Revenue) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General government	348,517				348,517
Public safety	17,039				17,039
Planning and zoning	193,407	10,930			182,477
Transportation	6,000				6,000
Community relations	27,975		200		27,775
Historical commission	2,886				2,886
Cultural and recreation	183,191	9,314	992	116,740	56,145
	<u>779,015</u>	<u>20,244</u>	<u>1,192</u>	<u>116,740</u>	<u>640,839</u>
Total Governmental Activities					

General revenues	
Ad valorem taxes	26,589
Other taxes and licenses	13,585
Unrestricted intergovernmental allocations	475,556
Investment earnings, unrestricted	365,729
Miscellaneous	3,385
Total General Revenues	<u>884,844</u>
Change in net assets	244,005
Net assets - beginning	<u>12,699,711</u>
Net assets - ending	<u>12,943,716</u>

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

**Town of Summerfield, North Carolina
Balance Sheet
Governmental Fund
June 30, 2010**

Exhibit 3

General Fund

June 30,
2010

Assets

Cash and investments	7,524,869
Taxes receivable (net)	1,285
Accounts receivable (net)	6,725
Due from other governments	139,536
Prepaid items	<u>1,639</u>
 Total Assets	 <u><u>7,674,054</u></u>

Liabilities and Fund Balance

Liabilities:	
Accounts payable and accrued liabilities	353,513
Unearned revenue	<u>1,285</u>
 Total Liabilities	 <u><u>354,798</u></u>

Fund Balance

Reserved:	
Reserved for encumbrance	509,067
Reserved by state statute	147,900
Reserved - other	3,528
Unreserved:	
Designated for subsequent year expenditures	69,189
Designated for transportation	50,000
Undesignated	<u>6,539,572</u>
 Total Fund Balance	 7,319,256

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	5,642,052
Liabilities for earned but deferred revenues in fund statements.	1,285
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(18,877)</u>
 Net assets of governmental activities	 <u><u>12,943,716</u></u>

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

Town of Summerfield, North Carolina
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Fund Types
For the Fiscal Year Ended June 30, 2010

Exhibit 4

Governmental
Fund Types

General
Fund

June 30, 2010

Revenues

Ad valorem taxes	30,223
Other taxes and licenses	13,585
Unrestricted intergovernmental revenues	475,556
Restricted intergovernmental revenues	61,495
Fees and permits	10,930
Investment earnings	365,729
Grants	55,245
Miscellaneous	13,891

Total Revenues	<u>1,026,654</u>
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Expenditures

Current operating:	
General government	345,096
Public safety	17,039
Planning and zoning	193,101
Transportation	6,000
Historical commission	1,767
Community relations	27,975
Culture and recreation	2,465,058

Total Expenditures	<u>3,056,036</u>
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Net Change in Fund Balance	(2,029,382)
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Fund Balance, Beginning of Year	<u>9,348,638</u>
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Fund Balance, End of Year	<u><u>7,319,256</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Summerfield, North Carolina
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Fund Types
For the Fiscal Year Ended June 30, 2010

Exhibit 4
(Continued)

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

Total net change in fund balance - governmental funds (2,029,382)

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

Governmental funds report capital outlays as expenditures. However, in
the statement of activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.

Capital Outlays/Contributions	2,353,910	
Depreciation	<u>75,416</u>	
		2,278,494

Change in deferred tax revenues (3,634)

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	<u>(1,473)</u>
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Changes in net assets of governmental activities 244,005

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

Town of Summerfield, North Carolina
 General Fund
 Statement of Revenues, Expenditures
 and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2010

Exhibit E

	General Fund 2010			variance With Final Budget Positive /Negative
	Original Budget	Final Budget	Actual	
Revenues				
Ad valorem taxes	26,650	26,650	30,220	3,540
Other taxes and licenses	0	0	13,588	13,588
Unrestricted intergovernmental revenues	548,440	548,440	478,658	(72,884)
Restricted intergovernmental revenues	62,500	62,500	61,495	(1,005)
Fees and permits	16,000	16,000	10,930	(4,070)
Investment earnings	360,000	360,000	368,729	8,729
Grants	50,000	50,000	55,245	5,245
Miscellaneous	6,500	6,500	13,821	7,291
Total Revenue	<u>1,369,220</u>	<u>1,369,220</u>	<u>1,328,654</u>	<u>(40,566)</u>
Expenditures				
Current operating				
General government	410,441	416,141	345,056	(70,046)
Public safety	25,152	25,152	17,539	(7,613)
Planning and zoning	217,804	231,804	193,101	(38,703)
Board of Adjustment	1,100	1,100	-	(1,100)
Transportation	0	6,000	6,000	2,000
Community relations	28,000	28,000	27,975	(25)
Historical commission	3,600	3,600	1,767	(1,833)
Culture and recreation	2,013,300	3,114,198	2,458,058	(649,138)
Total Expenditures	<u>2,695,497</u>	<u>3,827,993</u>	<u>3,168,036</u>	<u>(771,957)</u>
Revenues Over Under Expenditures	<u>1,369,220</u>	<u>(2,458,773)</u>	<u>(1,088,812)</u>	<u>(719,592)</u>
Appropriated Fund Balance	<u>1,369,220</u>	<u>(2,458,773)</u>	<u>0</u>	<u>(1,089,553)</u>
Net Change in Fund Balance	<u>0</u>	<u>0</u>	<u>(1,088,812)</u>	<u>(2,009,145)</u>
Fund Balance - Beginning of Year			<u>9,548,638</u>	
Fund Balance - End of Year			<u>8,459,826</u>	

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

Town of Summerfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

Note I. Summary of Significant Accounting Policies

The accounting policies of the Town of Summerfield 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 Summerfield is an incorporated Town which is governed by an elected mayor and a five-member Town Council. For financial reporting purposes, the Town of Summerfield includes all funds, agencies, boards, commissions, and authorities which are controlled by or are financially dependent upon the Town.

B. Basis of Presentation - Fund Accounting

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 intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Town of Summerfield has no business type activities.

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category - *governmental and proprietary* - are presented. The emphasis of fund financial statements is on major governmental funds. All

Town of Summerfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The Town reports the following major governmental fund:

General Fund. The General fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are state-shared revenues. The primary expenditures are for Cultural and Recreational services, Planning and Zoning and General Government.

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past

Town of Summerfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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, Guilford County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Summerfield. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Guilford County from March 2009 through February 2010 apply to the fiscal year ended June 30, 2010. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. The Town did not charge a property tax for the fiscal year ended June 30, 2010.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then 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.

D. Budgetary Data

Town of Summerfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at the fiscal-year end. 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 object level for multi-year funds. The Finance Officer is authorized to transfer appropriations between functional areas within a fund; however, any revisions that alter the total expenditures of any fund or that change functional appropriations must be approved by the governing board. During the year, several amendments to the original budget were necessary. 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

1. Deposits and Investments

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

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

2. 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 1st the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2009. As allowed by State law, the Town has established a schedule of discounts

Town of Summerfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts. The Town did not charge a property tax for the fiscal year ended June 30, 2010.

3. Allowances for Doubtful Accounts

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

4. Capital Assets

As a part of the implementation of GASB Statement 34, the Town is permitted to forgo the retroactive reporting of governmental infrastructure networks. The Town has chosen to do so.

A capitalization threshold has been established for furniture and equipment of \$1,000. A capitalization threshold has not been established for other capital assets. Capital assets are depreciated using the straight-line method over the following estimated useful lives.

	<u>Useful Life</u>
Land improvements, buildings, and infrastructure	15 to 50 years
Furniture, fixtures, equipment, heavy equipment, and vehicles	3 to 10 years
Computer equipment and software	3 to 5 years

5. Net Assets/Fund Balances

Net assets in government-wide 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.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law {G.S.159-13(b)(16)} restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus

Town of Summerfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved by State statute - portion of fund balance, which is not available for appropriation under state law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables which have not been offset by deferred revenues.

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2010-2011 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at the year-end.

Note II. Detail Notes on All Funds

A. Assets

1. Deposits

All deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agent in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, the deposits are considered to be held by the Town's agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for

Town of Summerfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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 collateralized public deposits under the Pooling Method.

At June 30, 2010, the Town's deposits had a carrying amount of \$7,521,110, and a bank balance of \$7,605,236. Of the bank balance, \$751,243 was covered by federal depository insurance, and \$6,853,993 was covered by collateral held under the Pooling Method. The Town had \$300 of petty cash on hand at June 30, 2010.

2. Investments

Summerfield had \$3,459 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 a credit risk policy which limits its investments to the following:

- A. Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.
- B. Obligations of the State of North Carolina.
- C. Savings Certificates issued by any savings and loan association having its principal office in North Carolina; provided that any principal amount of such certificate in excess of the amount insured by the federal government or any agency thereof, or by a mutual deposit guaranty association authorized by the Commissioner of Banks of the Department of Commerce of the State of North Carolina, be fully collateralized.
- D. Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest (A1, P1, F1) by any nationally recognized rating service which rates the particular obligation.
- E. Participating shares in a mutual fund for local government investment (such as the N.C. Cash Management Trust), which is certified by the N.C. Local Government Commission.

It is recognized that the Town may want to diversify its investments further by allowing other legally recognized investments to be utilized. The decision to add investment vehicle

Town of Summerfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

options to this policy shall be based on a recommendation from the Finance Officer and Finance Committee to the Town Council.

The combined total investment in commercial paper shall not exceed fifteen percent (15%) of the total portfolio and the investment in commercial paper of a single issuer shall not exceed the lesser of three hundred thousand dollars (\$300,000) or seven percent (7%) of the total portfolio at the time of investment.

No investment shall be made in any security with maturity greater than five (5) years from the date of purchase. No more than twenty-five percent (25%) of the total portfolio at the time of investment can be in any security with maturity greater than four (4) years.

3. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of the following allowances for accounts:

General Fund:

Taxes Receivable	3,269
Code Enforcement Liens	1,475

4. Due from Governmental Agencies

Amounts due from governmental agencies consist of the following:

	<u>Local</u>	<u>State</u>	<u>Total</u>
Sales Tax Distribution		8,781	8,781
Utilities and Franchise Tax		77,844	77,844
Sales Tax Refund		34,483	34,483
Ad Valorem Taxes	336		336
AEC Distribution	3,478		3,478
Part F Grant		14,650	14,650
Motor Fuel Tax	_____	_____64	_____64
	3,714	135,822	139,536

Town of Summerfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

5. Capital Assets

Capital Asset activity for the Town of Summerfield for the year ended June 30, 2010 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	1,350,385			1,350,385
Construction in progress	1,159,026	2,345,148	1,007,604	2,496,570
Total capital assets not being depreciated	2,509,411	2,345,148	1,007,604	3,846,955
 Capital assets being depreciated:				
Buildings and improvements	361,478	108,671		470,149
Land improvements	611,476	872,214		1,483,690
Office furniture and equipment	140,925	35,481	3,480	172,926
Vehicles	10,180			10,180
Total capital assets being depreciated	1,124,059	1,016,366	3,480	2,136,945
 Less accumulated depreciation for:				
Buildings and improvements	54,963	11,922		66,885
Land improvements	114,258	48,991		163,249
Office furniture and equipment	94,767	12,467	3,480	103,754
Vehicles	5,924	2,036		7,960
Total accumulated depreciation	269,912	75,416	3,480	341,848
Total capital assets being depreciated, net	854,147			1,795,097
Governmental activity capital assets, net	3,363,558			5,642,052

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

General Government	13,571
Planning and Zoning	1,230
Historic	1,119
Recreation	59,496
	75,416

Town of Summerfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description - The Town of Summerfield contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G. S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing from 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 is 7.61% of annual covered payroll. The Town does not have any employees engaged in law enforcement for which a different contribution rate would be required. The Town's contributions to LGERS for the year ended June 30, 2010 were \$13,326, and the Town's contributions to LGERS for the years ended June 30, 2009, 2008, 2007, 2006, and 2005 were \$12,655, \$12,418, \$7,736, \$9,346 and \$6,019. The year ended June 30, 2005 was the first year that the Town participated in LGERS. The contributions made by the Town equaled the required contributions for the year.

b. Supplemental Retirement Income Plan for Full-Time Employees

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Town matches three percents of employees' salaries. All employees may make

Town of Summerfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

voluntary contributions to the plan. Contributions for the year ended June 30, 2010 were \$16,520 which consisted of \$6,597 from the Town and \$9,923 from the employees.

2. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values. Claims incurred have not exceeded coverage in any of the past three fiscal years.

The Town carries flood insurance through the Interlocal Risk Financial Fund of North Carolina. The Town is in an area of the State that has been mapped and designated an "X". The "X" flood rate zone is outside the 1% annual charge flood plain. The policy carries a coverage limit of \$5,000,000 and a \$50,000 deductible clause.

In accordance with G.S.159-29, the Finance Officer is bonded for \$50,000. The remaining employees are covered under an employee dishonesty policy for \$10,000.

3. Changes in Long-Term Liabilities

	Balance July 1, <u>2009</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2010</u>	Current Portion of <u>Balance</u>
Governmental Activities:					
Compensated absences	17,403	18,877	17,403	18,377	18,877

Rouse, Rouse, Penn & Rouse, L.L.P.

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Patricia E. Penn, CPA
Victor B. Rouse, CPA

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 Summerfield, North Carolina

We have audited the accompanying financial statements of the governmental activities of the Town of Summerfield, North Carolina, as of and for the year ended June 30, 2010, which collectively comprises the Town of Summerfield's basic financial statements, and have issued our report thereon dated November 23, 2010. 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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the

Town's financial statements that are more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiency described in 2010-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Summerfield'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 statements 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. We noted certain matters that we reported to management of the Town of Summerfield, in a separate letter dated November 23, 2010.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of Town Council, 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.

Rouse, Rouse, Fenn & Rouse, L.L.P.
Certified Public Accountants

Fden, North Carolina
November 23, 2010

TOWN OF SUMMERFIELD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2010

Significant Deficiencies

2010 – 1 Segregation of Duties

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among Town of Summerfield personnel.

Effect: Transactions could be mishandled.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation.

View of responsible officials and planned corrective actions: The Town is aware of the potential deficiency in internal control due to the limited number of employees. Contracting for accounting services is an attempt to minimize this weakness and ensure that fiduciary responsibilities are executed with appropriate checks for internal control. Furthermore, the Town requires multiple signatures from officers for all financial transactions.