

TOWN OF WARSAW  
Warsaw, North Carolina

FINANCIAL STATEMENTS  
Year Ended June 30, 2019

TOWN OF WARSAW

Warsaw, North Carolina

BOARD OF COMMISSIONERS

Owen Martin  
Peggy Doran  
Valerie Nelson  
Russell Eason

ADMINISTRATIVE OFFICERS

A.J. Connors  
Mayor

Scotty Smith  
Mayor Pro-Tem

Scotty Summerlin  
Town Manager

Lea Turner  
Town Clerk/Finance Officer

**Town of Warsaw, North Carolina**  
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**June 30, 2019**

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## FINANCIAL SECTION



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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Warsaw, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 from material misstatement. The financial statements of the Town of Warsaw ABC Board were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based upon our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Warsaw, North Carolina, as of June 30, 2019, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll 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.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Warsaw, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2020 on our consideration of the Town of Warsaw'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 the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Warsaw's internal control over financial reporting and compliance.

*Thompson, Price, Scott, Adams & Co., PA*  
*Wilmington, North Carolina*  
*February 7, 2020*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Management’s Discussion and Analysis**

As management of the Town of Warsaw, we offer readers of the Town of Warsaw’s financial statements this narrative overview and analysis of the financial activities of the Town of Warsaw for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town’s financial statements, which follow this narrative.

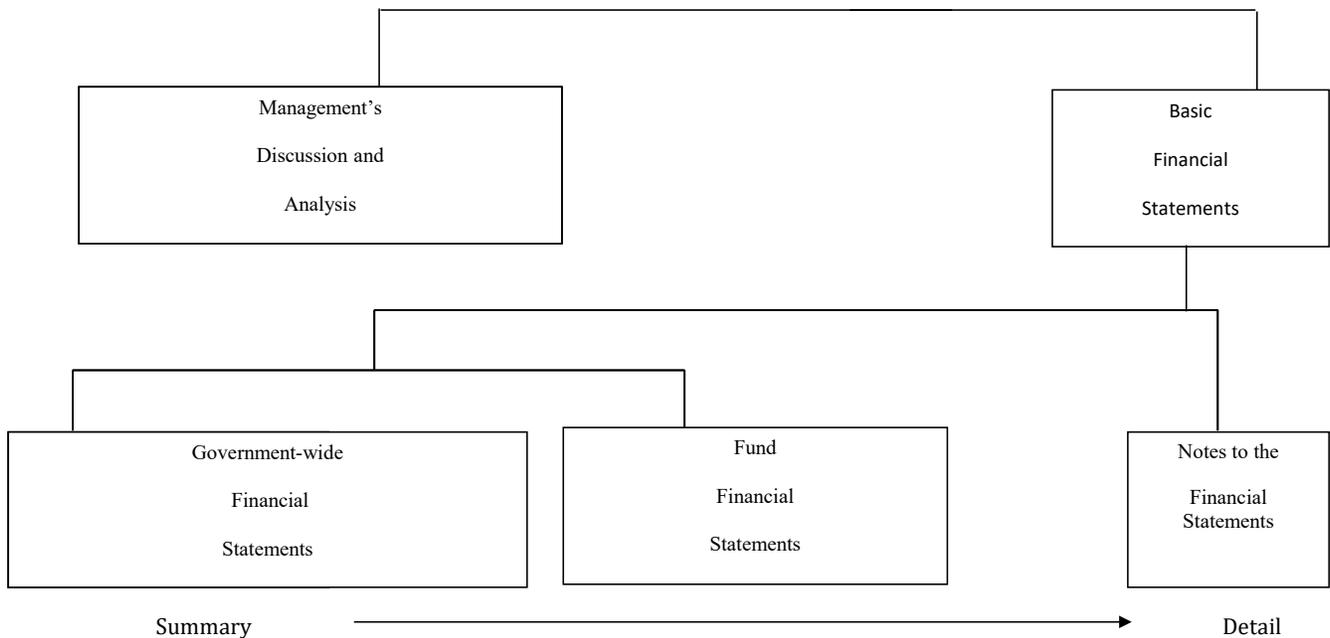
**Financial Highlights**

- The assets and deferred outflows of resources of the Town of Warsaw exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$20,259,859 (net position).
  - The Town’s total net position increased by \$1,157,742, primarily due to increase in the business-type activities net position.
- As of the close of the current fiscal year, the Town of Warsaw’s governmental funds reported combined ending fund balances of
- \$2,971,160, an increase of \$488,864 in comparison with the prior year. Approximately 49 percent of this total amount, or \$1,446,789 is available for spending at the government’s discretion (unassigned).
  - At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,446,789 or 53% of total general fund expenditures for the fiscal year.
  - The Town of Warsaw’s total debt decreased by \$199,547 during the current fiscal year. The key factor in this decrease was the repayment of several debt service agreements.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Town of Warsaw’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 Warsaw.

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

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the North Carolina General Statutes can also be found in this part of the statements.

### Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes, 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 and storm water services offered by the Town of Warsaw. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and the Board is required to distribute its profits to the Town.

The government-wide financial statements are Exhibits 1 and 2 of this report.

### Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Warsaw, 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 Warsaw can be divided into two categories: governmental funds and proprietary funds.

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

The Town of Warsaw adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary Funds** – Town of Warsaw has two proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Warsaw uses enterprise funds to account for its water fund activities. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position 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 8 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information.

**Interdependence with Other Entities** – The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

**Government-Wide Financial Analysis**

**Town of Warsaw's Net Position  
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 3,165,878	\$ 2,689,433	\$ 2,290,871	\$ 2,077,730	\$ 5,456,749	\$ 4,767,163
Capital assets	1,562,797	1,655,180	16,009,860	15,545,145	17,572,657	17,200,325
Total assets	4,728,675	4,344,613	18,300,731	17,622,875	23,029,406	21,967,488
Deferred outflows of resources	326,241	221,780	81,433	55,904	407,674	277,684
Long-term liabilities outstanding	763,141	680,253	2,259,487	2,351,520	3,022,628	3,031,773
Other liabilities	82,007	66,553	23,913	13,230	105,920	79,783
Total liabilities	845,148	746,806	2,283,400	2,364,750	3,128,548	3,111,556
Deferred inflows of resources	40,569	24,569	8,104	13,230	48,673	37,799
Net position:						
Net investment in capital assets	1,467,723	1,491,125	13,996,872	13,401,591	15,464,595	14,892,716
Restricted	937,650	921,878	-	-	937,650	921,878
Unrestricted	1,763,826	1,382,015	2,093,788	1,905,508	3,857,614	3,287,523
Total net position	\$ 4,169,199	\$ 3,795,018	\$ 16,090,660	\$ 15,307,099	\$ 20,259,859	\$ 19,102,117

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Warsaw exceeded liabilities and deferred inflows by \$20,259,859 as of June 30, 2019. The Town's net position increased by \$1,157,742 for the fiscal year ended June 30, 2019. However, the largest portion \$15,464,595 (76%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Warsaw uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Warsaw's net investment in 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 of Warsaw's net position, \$937,650 (5%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 3,857,614 (19%) is unrestricted.

Several particular aspects of the Town's financial operations influenced the total unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.91%.

**Town of Warsaw**  
**Changes in Net Position**

**Figure 3**

	Governmental Activities	Governmental Activities	Business Type Activities	Business Type Activities	Total	
	2019	2018	2019	2018	2019	2018
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 662,085	\$ 662,554	\$ 1,330,405	\$ 1,253,213	\$ 1,992,490	\$ 1,915,767
Operating grants and contributions	257,248	231,217	62,498	-	319,746	\$ 231,217
Capital grants and contributions	-	-	981,417	1,236,102	981,417	\$ 1,236,102
						\$ -
General revenues:						
Property taxes	1,151,524	1,123,131	-	-	1,151,524	\$ 1,123,131
Other taxes	1,013,991	962,332	-	-	1,013,991	\$ 962,332
Other	107,496	82,918	15,648	9,428	123,144	\$ 92,346
<b>Total revenues</b>	<b>3,192,344</b>	<b>3,062,152</b>	<b>2,389,968</b>	<b>2,498,743</b>	<b>5,582,312</b>	<b>\$ 5,560,895</b>
<b>Expenses:</b>						
General government	276,268	268,028	-	-	276,268	268,028
Public safety	1,286,596	1,242,535	-	-	1,286,596	1,242,535
Highways/streets	398,034	348,170	-	-	398,034	348,170
Environmental Protection	226,058	235,709	-	-	226,058	235,709
Economic development	-	-	-	-	-	-
Culture and recreation	338,608	344,453	-	-	338,608	344,453
Interest on long-term debt	4,976	10,205	-	-	4,976	10,205
Water and sewer	-	-	1,606,407	1,493,569	1,606,407	1,493,569
Other	287,623	203,305	-	-	287,623	203,305
<b>Total expenses</b>	<b>2,818,163</b>	<b>2,652,405</b>	<b>1,606,407</b>	<b>1,493,569</b>	<b>4,424,570</b>	<b>4,145,974</b>
Increase in net position before transfers	374,181	409,747	783,561	1,005,174	1,157,742	1,414,921
Transfers	-	-	-	-	-	-
Increase in net position	374,181	409,747	783,561	1,005,174	1,157,742	1,414,921
Net position, beginning as previously reported	3,795,018	3,385,271	15,307,099	14,301,925	19,102,117	17,687,196
Restatement	-	-	-	-	-	-
Net position, beginning restated	3,795,018	3,385,271	15,307,099	14,301,925	19,102,117	17,687,196
Net position, ending	<b>\$ 4,169,199</b>	<b>\$ 3,795,018</b>	<b>\$ 16,090,660</b>	<b>\$ 15,307,099</b>	<b>\$ 20,259,859</b>	<b>19,102,117</b>

**Governmental activities.** Governmental activities increased the Town's net position by \$374,181 thereby accounting for 32% of the total increase in the net position of the Town of Warsaw. Key elements of this increase are as follows:

- Increase in revenues.

**Business-type activities.** Business-type activities increased the Town of Warsaw's net position by \$783,561, accounting for 68% of the total increase in the government's net position. Key elements of this increase are as follows:

- Revenue remained steady.

#### **Financial Analysis of the Town's Funds**

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

**Governmental Funds.** The focus of the Town of Warsaw'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 Warsaw's financing requirements.

The general fund is the chief operating fund of the Town of Warsaw. At the end of the current fiscal year, Town of Warsaw's unassigned fund balance available in the General Fund was \$1,446,789, while total fund balance reached \$2,017,407.

At June 30, 2019 the governmental funds of Town of Warsaw reported a combined fund balance of \$2,971,160, with a net increase in fund balance of \$488,864. Included in this change in fund balance is an increase in the fund balance in the Economic Revolving Loan fund and an increase in the Wellness Center funds.

**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.

**Proprietary Fund.** The Town of Warsaw's proprietary fund provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$2,093,788. The total change in net position was \$783,561. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Warsaw's business-type activities.

#### **Capital Asset and Debt Administration**

**Capital assets.** The Town of Warsaw's investment in capital assets for its governmental and business-type activities as of June 30, 2019 totals \$17,572,657 (net of accumulated depreciation). These assets include buildings, land, infrastructure, machinery and equipment, and vehicles.

Major capital asset transactions during the year include the following:

- Excavator
- Construction in progress

**Town of Warsaw’s Capital Assets  
(net of depreciation)  
Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 65,727	\$ 65,727	\$ 33,218	\$ 33,218	\$ 98,945	\$ 98,945
Buildings and system	272,536	288,965	13,383,103	13,919,734	13,655,639	14,208,699
Infrastructure	22,088	26,971	-	-	22,088	26,971
Vehicles and motor equipment	213,847	284,919	77,903	58,014	291,750	342,933
Construction in progress	988,599	988,598	2,515,636	1,534,179	3,504,235	2,522,777
<b>Total</b>	<b>\$ 1,562,797</b>	<b>\$ 1,655,180</b>	<b>\$ 16,009,860</b>	<b>\$ 15,545,145</b>	<b>\$ 17,572,657</b>	<b>\$ 17,200,325</b>

Additional information on the Town’s capital assets can be found in the notes of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2019 the Town of Warsaw had total debt outstanding of \$2,108,062.

**Town of Warsaw’s Outstanding Debt**

The Town of Warsaw’s total debt decreased by \$199,547 during the current fiscal year.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue up 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 Warsaw is \$17,293,842.

Additional information regarding the Town of Warsaw’s long-term debt can be found in the notes of the Basic Financial Statements.

**Economic Factors and Next Year’s Budgets and Rates**

The following key economic factors reflect the growth and prosperity of the Town.

- Unemployment remained steady.

**Budget Highlights for the Fiscal Year Ending June 30, 2020**

**Governmental Activities:** Property taxes are expected to remain the same as the current tax rate. The Town will use increases in revenues to finance programs currently in place. No new revenues are anticipated and other current sources remain constant. Management continually seeks grants and funding from outside sources to supplement the Town’s revenue streams.

**Business-type Activities:** The water and sewer rates in the Town were left unchanged for the coming year.

**Requests for Information**

This report is designed to provide an overview of the Town’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Town of Warsaw, Post Office Box 464, Warsaw, NC 28398. You can also call (910) 293-7814.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Town of Warsaw, North Carolina**  
**Statement of Net Position**  
**June 30, 2019**

	<b>Primary Government</b>			<b>Town of Warsaw ABC Board</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 2,249,830	\$ 1,920,398	\$ 4,170,228	\$ 58,159
Restricted cash	109,818	189,931	299,749	-
Receivables (net)	742,995	243,777	986,772	-
Inventories	-	-	-	127,373
Prepaid Expenses	-	-	-	3,831
Internal balances	63,235	(63,235)	-	-
Non Current Assets:				
Capital assets:				
Land, improvements, and construction in progress	1,054,326	2,548,854	3,603,180	58,000
Other capital assets, net of depreciation	508,471	13,461,006	13,969,477	11,969
Total capital assets	<u>1,562,797</u>	<u>16,009,860</u>	<u>17,572,657</u>	<u>69,969</u>
Total assets	<u>4,728,675</u>	<u>18,300,731</u>	<u>23,029,406</u>	<u>259,332</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 326,241</u>	<u>\$ 81,433</u>	<u>\$ 407,674</u>	<u>\$ 12,987</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 57,824	\$ 7,786	\$ 65,610	\$ 25,733
Compensated absences payable	24,183	16,127	40,310	-
Long-term liabilities:				
Liabilities payable from restricted assets:				
Deposits	-	141,438	141,438	-
Compensated absences payable	38,609	-	38,609	-
Net pension liability	372,491	105,061	477,552	11,387
Total pension liability	256,967	-	256,967	-
Due within one year	58,636	130,566	189,202	-
Due in more than one year	36,438	1,882,422	1,918,860	-
Total liabilities	<u>845,148</u>	<u>2,283,400</u>	<u>3,128,548</u>	<u>37,120</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>40,569</u>	<u>8,104</u>	<u>48,673</u>	<u>59</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,467,723	13,996,872	15,464,595	69,969
Restricted for:				
Working Capital	-	-	-	21,973
Stabilization by State Statute	827,832	-	827,832	-
Streets	85,694	-	85,694	-
Economic development	-	-	-	-
Other	24,124	-	24,124	-
Unrestricted (deficit)	<u>1,763,826</u>	<u>2,093,788</u>	<u>3,857,614</u>	<u>143,198</u>
Total net position	<u>\$ 4,169,199</u>	<u>\$ 16,090,660</u>	<u>\$ 20,259,859</u>	<u>\$ 235,140</u>

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

**Town of Warsaw, North Carolina  
Statement of Activities  
For the Year Ended June 30, 2019**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Town of Warsaw ABC Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
<b>Primary government:</b>								
Governmental Activities:								
General government	\$ 276,268	\$ 124,801	\$ 164,369	\$ -	\$ 12,902	\$ -	\$ 12,902	\$ -
Public safety	1,286,596	18,755	-	-	(1,267,841)	-	(1,267,841)	-
Transportation	398,034	-	90,762	-	(307,272)	-	(307,272)	-
Environmental protection	226,058	335,240	2,117	-	111,299	-	111,299	-
Recreational	338,608	91,484	-	-	(247,124)	-	(247,124)	-
Special projects	287,623	91,805	-	-	(195,818)	-	(195,818)	-
Interest on long-term debt	4,976	-	-	-	(4,976)	-	(4,976)	-
Total governmental activities	<u>2,818,163</u>	<u>662,085</u>	<u>257,248</u>	<u>-</u>	<u>(1,898,830)</u>	<u>-</u>	<u>(1,898,830)</u>	<u>-</u>
Business-type activities:								
Water and Sewer	<u>1,606,407</u>	<u>1,330,405</u>	<u>62,498</u>	<u>981,417</u>	<u>-</u>	<u>767,913</u>	<u>767,913</u>	<u>-</u>
Total business-type activities	<u>1,606,407</u>	<u>1,330,405</u>	<u>62,498</u>	<u>981,417</u>	<u>-</u>	<u>767,913</u>	<u>767,913</u>	<u>-</u>
Total Primary Government	<u>\$ 4,424,570</u>	<u>\$ 1,992,490</u>	<u>\$ 319,746</u>	<u>\$ 981,417</u>	<u>(1,898,830)</u>	<u>767,913</u>	<u>(1,130,917)</u>	<u>-</u>
Component unit:								
ABC Board	\$ 721,941	\$ 748,182	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,241
Total component unit	<u>\$ 721,941</u>	<u>\$ 748,182</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,241</u>
General revenues:								
Taxes:								
Property taxes, levied for general purpose					1,151,524	-	1,151,524	-
Local option sales tax					800,160	-	800,160	-
Other taxes and licenses					213,831	-	213,831	-
Grants and contributions not restricted to specific programs					-	-	-	-
Investment earnings, unrestricted					107,496	15,648	123,144	6
Miscellaneous, unrestricted					-	-	-	-
Total general revenues not including transfers					<u>2,273,011</u>	<u>15,648</u>	<u>2,288,659</u>	<u>6</u>
Transfers					-	-	-	-
Total general revenues and transfers					<u>2,273,011</u>	<u>15,648</u>	<u>2,288,659</u>	<u>6</u>
Change in net position					374,181	783,561	1,157,742	26,247
Net position, beginning					3,795,018	15,307,099	19,102,117	208,893
Net position, ending					<u>\$ 4,169,199</u>	<u>\$ 16,090,660</u>	<u>\$ 20,259,859</u>	<u>\$ 235,140</u>

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

**Town of Warsaw, North Carolina  
Balance Sheet  
Governmental Funds  
June 30, 2019**

	<b>Major Funds</b>			<b>Total</b>
	<b>General Fund</b>	<b>Economic Revolving Loan Fund</b>	<b>Total Non- Major Funds</b>	<b>Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,497,027	\$ 479,100	\$ 273,703	\$ 2,249,830
Restricted cash	109,818	-	-	109,818
Taxes receivables, net	106,374	-	-	106,374
Account receivables, net	239,069	363,729	3,303	606,101
Due from other funds	221,731	-	-	221,731
Total assets	\$ 2,174,019	\$ 842,829	\$ 277,006	\$ 3,293,854
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 50,238	\$ -	\$ 7,586	\$ 57,824
Due to other funds	-	158,496	-	158,496
Total liabilities	50,238	158,496	7,586	216,320
 <b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes receivable	106,374	-	-	106,374
Total deferred inflows of resources	106,374	-	-	106,374
 <b>FUND BALANCES</b>				
<b>Restricted</b>				
Streets - Powell Bill	85,694	-	-	85,694
Stabilization by State Statute	460,800	363,729	3,303	827,832
Economic development	-	320,604	266,117	586,721
Reserve requirement	24,124	-	-	24,124
Unassigned	1,446,789	-	-	1,446,789
Total fund balances	2,017,407	684,333	269,420	2,971,160
Total liabilities, deferred inflows of resources and fund balance:	\$ 2,174,019	\$ 842,829	\$ 277,006	\$ 3,293,854

<p>Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p> <p>Deferred outflows of resources related to pensions are not reported in the funds.</p> <p>Liabilities for earned revenues considered deferred inflows of resources in fund statements.</p> <p>Other long-term assets (accrued interest from taxes) are not available to pay current period expenditures and therefore are deferred in the funds.</p> <p>Deferred inflows of resources related to pensions are not reported in the funds.</p> <p>Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds</p> <p>Net pension liability.</p> <p>Total pension liability.</p> <p>Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.</p>	<p>1,562,797</p> <p>326,241</p> <p>106,374</p> <p>30,520</p> <p>(40,569)</p> <p>(372,491)</p> <p>(256,967)</p> <p>(157,866)</p>
Net position of governmental activities	\$ 4,169,199

**Town of Warsaw, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2019**

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Economic Revolving Loan Fund</u>	<u>Total Non-Major Fund</u>	
<b>REVENUES</b>				
Ad valorem taxes	\$ 1,178,417	\$ -	\$ -	\$ 1,178,417
Other taxes and licenses	-	-	-	-
Unrestricted intergovernmental	1,013,991	-	-	1,013,991
Restricted intergovernmental	257,248	-	-	257,248
Permits and fees	449,325	-	-	449,325
Sales and services	119,630	-	-	119,630
Investment earnings	50,901	56,559	36	107,496
Miscellaneous	1,325	10,105	81,700	93,130
Total revenues	<u>3,070,837</u>	<u>66,664</u>	<u>81,736</u>	<u>3,219,237</u>
<b>EXPENDITURES</b>				
Current:				
General government	249,038	-	-	249,038
Public safety	1,173,852	-	-	1,173,852
Public Works & Streets	407,998	-	-	407,998
Special projects	287,623	-	-	287,623
Environmental protection	226,058	-	-	226,058
Recreational	311,847	-	-	311,847
Debt service	73,957	-	-	73,957
Economic development	-	-	-	-
Total expenditures	<u>2,730,373</u>	<u>-</u>	<u>-</u>	<u>2,730,373</u>
Excess (deficiency) of revenues over expenditures	<u>340,464</u>	<u>66,664</u>	<u>81,736</u>	<u>488,864</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Installment purchase obligations issued	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	340,464	66,664	81,736	488,864
Fund balances-beginning	1,676,943	617,669	187,684	2,482,296
Fund balances-ending	<u>\$ 2,017,407</u>	<u>\$ 684,333</u>	<u>\$ 269,420</u>	<u>\$ 2,971,160</u>

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

**Town of Warsaw, North Carolina**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance to the Statement of Activities**  
**Governmental Funds**  
**For the Year Ended June 30, 2019**

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

Net changes in fund balances - total governmental funds	\$	488,864
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay expenditures which were capitalized	21,071	
Depreciation expense for governmental assets	<u>(113,454)</u>	(92,383)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		79,329
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:</p>		
Change in unavailable revenue for tax revenues		(26,893)
<p>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:</p>		
Compensated absences		(8,728)
Pension expense		(134,989)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		<u>68,981</u>
Total changes in net position of governmental activities	\$	<u>374,181</u>

**Town of Warsaw, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2019**

	<b>General Fund</b>			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues:</b>				
Ad valorem taxes	\$ 1,109,000	\$ 1,109,000	\$ 1,178,417	\$ 69,417
Unrestricted intergovernmental	948,000	950,400	1,013,991	63,591
Restricted intergovernmental	143,400	178,000	257,248	79,248
Permits and fees	345,040	446,640	449,325	2,685
Sales and services	204,575	135,475	119,630	(15,845)
Investment earnings	19,000	19,000	50,901	31,901
Miscellaneous	2,000	1,000	1,325	325
Total revenues	<u>2,771,015</u>	<u>2,839,515</u>	<u>3,070,837</u>	<u>231,322</u>
<b>Expenditures</b>				
<b>Current:</b>				
General government	258,230	258,230	249,038	9,192
Public safety	1,297,390	1,270,740	1,173,852	96,888
Public Works & Streets	359,020	445,592	407,998	37,594
Recreation	356,975	330,975	311,847	19,128
Special projects	199,400	411,600	287,623	123,977
Debt service	50,000	74,150	73,957	193
Environmental	250,000	250,000	226,058	23,942
Economic development	-	-	-	-
Total expenditures	<u>2,771,015</u>	<u>3,041,287</u>	<u>2,730,373</u>	<u>310,914</u>
Revenues over (under) expenditures	-	(201,772)	340,464	542,236
<b>Other financing sources (uses):</b>				
Installment purchase obligations issued	-	-	-	-
Transfers (to)/from	-	-	-	-
Fund Balance Appropriated	-	201,772	-	(201,772)
Total other financing sources (uses)	<u>-</u>	<u>201,772</u>	<u>-</u>	<u>(201,772)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	340,464	<u>\$ 340,464</u>
Fund Balance, Beginning			1,676,943	
Fund Balance, Ending			<u>\$ 2,017,407</u>	

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

**Town of Warsaw, North Carolina**  
**Statement of Fund Net Position**  
**Proprietary Fund**  
**June 30, 2019**

	Major Enterprise Fund
	Water and Sewer Fund
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 1,920,398
Restricted cash	189,931
Accounts Receivable (net)	243,777
Total	2,354,106
Noncurrent assets:	
Capital assets (net)	16,009,860
Total assets	18,363,966
Deferred Outflows of Resources	81,433
<b>Liabilities</b>	
Current liabilities:	
Accounts payable and accrued liabilities	7,786
Compensated absences payable	16,127
Due to other funds	63,235
Current portion of long-term debt	130,566
Total	217,714
Noncurrent liabilities:	
Liabilities payable from restricted assets:	
Deposits	141,438
Net pension liability	105,061
Non-current portion of long-term debt	1,882,422
Total noncurrent liabilities	2,128,921
Total liabilities	2,346,635
Deferred Inflows of Resources	8,104
<b>Net Position</b>	
Net investment in capital assets	13,996,872
Unrestricted	2,093,788
Total net position	\$ 16,090,660

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

**Town of Warsaw, North Carolina**  
**Statement of Revenues, Expenses, and**  
**Changes in Fund Net Position**  
**Proprietary Fund**  
**For the Year Ended June 30, 2019**

	Major Enterprise Fund <u>Water and Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 1,259,455
Water & Sewer taps	6,301
Other operating revenues	<u>127,147</u>
Total operating revenues	<u>1,392,903</u>
Operating expenses:	
Operations	1,009,962
Depreciation	<u>558,884</u>
Total operating expenses	<u>1,568,846</u>
Operating income	<u>(175,943)</u>
Nonoperating revenues (expenses):	
Investment earnings	15,648
Interest and fees	(37,561)
Total nonoperating revenues (expenses)	<u>(21,913)</u>
Income before transfers	<u>(197,856)</u>
Transfer in from general fund	-
Capital Contributions	<u>981,417</u>
	981,417
Change in net position	783,561
Net Position - beginning of year	<u>15,307,099</u>
Total net position, ending	<u>\$ 16,090,660</u>

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

**Town of Warsaw, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For The Year Ended June 30, 2019**

	Major Enterprise Fund
	Water and Sewer Fund
Cash flows from operating activities:	
Cash received from customers	\$ 1,394,040
Cash paid for goods and services	(524,271)
Cash paid to employees for services	(468,848)
Customer deposits net	8,019
Net cash provided by operating activities	408,940
Cash flows from noncapital financing activities:	
Change in due to (from)	-
Net cash used by noncapital financing activities	-
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,023,600)
Installment purchase agreement	-
Capital Contributions	981,417
Principal paid on bond maturities and note agreements	(130,566)
Interest and fees paid on bond maturities and notes agreements	(37,561)
Net cash used by capital and related financing activities	(210,310)
Cash flows from investing activities:	
Interest on investments	15,648
Net decrease in cash and cash equivalents	214,278
Cash and cash equivalents:	
Beginning of year, July 1	1,896,051
End of year, June 30	\$ 2,110,329

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

**Town of Warsaw, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For The Year Ended June 30, 2019**

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	Water and Sewer Fund
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ <u>(175,943)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	558,884
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	1,137
Increase (decrease) in accounts payable and accrued liabilities	6,833
Increase (decrease) in net pension liability	30,515
(Increase) decrease in deferred outflows of resources for pensions	(25,529)
Increase (decrease) in deferred inflows of resources for pensions	1,174
Increase (decrease) in compensated abs.	3,850
Increase(decrease) in deposits	<u>8,019</u>
Total adjustments	<u>584,883</u>
Net cash provided by operating activities	\$ <u><u>408,940</u></u>

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

## NOTES TO THE FINANCIAL STATEMENTS

**Town of Warsaw, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Warsaw and its discretely presented component unit 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 Warsaw is a municipal corporation, that is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally-separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Town of Warsaw ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund. Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Warsaw ABC Board, 121 S Front St., Warsaw, North Carolina 28398.

B. Basis of Presentation

*Government-wide Statements*: The statement of net position and the statement of activities display information about the primary government and its component unit. 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 expenses 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 non-major funds.

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

The Town reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

**Economic Revolving Loan Fund. (EDRL)** This fund is used to account for monies to loan for economic development.

The Town reports the following non-major governmental fund:

**Recreation Project Special Revenue Fund.** This fund is used to account for grant funds that are restricted for use for a particular purpose.

The Town reports the following major enterprise funds:

Water Fund and Sewer Fund. These two separate funds are used to account for the Town's water and sewer operations.

**USDA-RC Sanitary Sewer Project Fund.** This fund is used to account for the improvements to the Town's Wastewater System.

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 proprietary 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 non-operating 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 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 non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

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, Special Revenue and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Project ordinances are adopted for the Capital Project Funds. The Enterprise Fund projects are consolidated with their respective operating fund for reporting purposes. Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds and at the project level for the multi-year funds. The Town Manager is authorized by the budget ordinance to reallocate departmental appropriations among the various expenditures within each department. The Town Manager is also authorized to effect interdepartmental transfer of minor budget amendments not to exceed ten (10) percent of the appropriated fund for the department's allocation which is being reduced. Notification of all such amendments shall be made to the Board of Commissioners at their next regular meeting following the transfer. 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 that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

1. Deposits and Investments

All deposits of the Town and the ABC board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town and the ABC board 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 and the ABC board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's and the ABC Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT- Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, the Term Portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

3. Restricted Assets

The unexpended capital project funds of the Water and Sewer Fund are classified as restricted assets for the enterprise fund because their use is completely restricted to the purpose for which the funds were originally authorized. Powell Bill funds are also classified as restricted cash because they can only be expended for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

Town of Warsaw Restricted Cash

Governmental Activities		
General Fund		
	Streets	\$ 85,694
	Reserve requirement	24,124
	Total governmental activities	\$ <u>109,818</u>
Business-type Activities		
Water and Sewer Fund		
	Customer Deposits	\$ 141,438
	Unspent capital project funds	48,493
	Total Business-type activities	<u>189,931</u>
	Total Restricted Cash	\$ <u><u>299,749</u></u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 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, 2018. 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.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollected accounts will be written off using the direct write-off method.

6. Inventory

The inventories of the Town and the ABC board are valued at cost (first in, first out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventories of the Town's enterprise funds and those of the Town of Warsaw ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories are expensed when consumed rather than purchased.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost for the Town's assets are \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Other assets of the Town are depreciated on a class life basis at the following rates:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Furniture and office equipment	10%
Maintenance and construction equipment	12%
Medium and heavy motor vehicles	16%
Automobiles and light trucks	30%

Property, plant, and equipment of the ABC board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	20 years
Furniture & Equipment	10 years
Vehicles	3-5 years
Leasehold Improvements	10-20 years
Computers, etc.	3 years

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town does have one item that meet this criterion, pension deferrals for the 2019 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has only two items that meet the criterion for this category - property taxes receivable and pension deferrals for the 2019 fiscal year.

9. 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 position. Bond premiums and discounts, 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 discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the 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.

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government wide and proprietary funds and the ABC Board, an expense and a liability for compensated absences and the salary-related payments are recorded with the funds 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 is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

Both the Town and the ABC Board's sick leave policies provide 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 neither the Town nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position 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.

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

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

Restricted for Streets – Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of total unexpended Powell Bill funds.

Restricted for Economic Development - portion of fund balance restricted for economic development [G.S. Chapter 159, Article 3, Part 2].

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Warsaw's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned Fund Balance – portion of fund balance that the Town of Warsaw intends to use for specific purposes.

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

## 12. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town's employer contributions are recognized when due and the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

## II. Stewardship, Compliance, and Accountability

### A. Significant Violations of Finance-Related Legal and Contractual Provisions

#### 1. Noncompliance with North Carolina General Statutes

None.

#### 2. Contractual Violations

None.

Notes to the Financial Statements

B. Deficit Fund Balance or Net Position of Individual Funds

None.

C. Excess of Expenditures over Appropriations

None reported.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town and the ABC Board 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 or ABC Board's agents in these units' names. 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 and the ABC Board, these deposits are considered to be held by the Town's and the ABC Boards agents in their names. 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 and the ABC Board have no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$544,659 and a bank balance of \$702,573, all of which was covered by federal depository insurance. The ABC Board's deposits had a carrying amount of \$58,159 and a bank balance of \$71,200. All of the bank balance was covered by federal depository insurance.

2. Investments

At June 30, 2019, the Town of Warsaw had \$3,925,318 invested with the North Carolina Capital Management Trust's Government Portfolio which earned a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables

	Accounts	Taxes and Related Accrued Interest	Due From Other Governments	Other	Total
Governmental Activities:					
General	\$ 95,798	\$ 136,894	\$ 143,271	\$ -	\$ 375,963
Non Major Funds	-	-	3,303	-	3,303
EDRL Fund	363,729	-	-	-	363,729
Total Governmental Activities	<u>\$ 459,527</u>	<u>\$ 136,894</u>	<u>\$ 146,574</u>	<u>\$ -</u>	<u>\$ 742,995</u>
Business-Type Activities:					
Water and Sewer	\$ 243,777	\$ -	\$ -	\$ -	\$ 243,777
Total Business-Type Activities	<u>\$ 243,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 243,777</u>

Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position are net of the following allowances for doubtful accounts. There are no doubtful accounts. The Town uses direct write off method.

4. Capital Assets**Primary Government**

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

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 65,727	\$ -	\$ -	\$ 65,727
Construction in progress	988,599	-	-	988,599
Total capital assets not being depreciated	1,054,326	-	-	1,054,326
<b>Capital assets being depreciated:</b>				
Buildings & Improvements	1,298,776	-	-	1,298,776
Equipment and Vehicles	1,471,933	21,071	(42,585)	1,450,419
Infrastructure	109,205	-	-	109,205
Total capital assets being depreciated	2,879,914	21,071	(42,585)	2,858,400
<b>Less accumulated depreciation for:</b>				
Buildings & Improvements	1,009,811	16,429	-	1,026,240
Equipment and Vehicles	1,187,014	92,142	(42,585)	1,236,571
Infrastructure	82,234	4,883	-	87,117
Total accumulated depreciation	2,279,059	\$ 113,454	\$ (42,585)	2,349,928
Total capital assets being depreciated, net	600,855			508,471
<b>Governmental activity capital assets, net</b>	<b>\$ 1,655,181</b>			<b>\$ 1,562,797</b>

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

General Government	\$ 22,509
Public Safety	61,895
Cultural & Recreation	21,810
Public Works	7,240
Total Depreciation Expense	<u>\$ 113,454</u>

**Business-Type Activities:**

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Water and Sewer Fund</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 33,218	\$ -	\$ -	\$ 33,218
Construction in progress	1,534,179	981,457	-	2,515,636
Total capital assets not being depreciated	1,567,397	981,457	-	2,548,854
<b>Capital assets being depreciated:</b>				
Plant and Distribution Systems	21,465,229	-	-	21,465,229
Equipment and Vehicles	347,113	42,143	-	389,256
Total capital assets being depreciated	21,812,342	42,143	-	21,854,485
<b>Less accumulated depreciation for:</b>				
Plant and Distribution Systems	7,545,495	536,631	-	8,082,126
Equipment and Vehicles	289,099	22,254	-	311,353
Total accumulated depreciation	7,834,594	\$ 558,885	\$ -	8,393,479
Total capital assets being depreciated, net	13,977,748			13,461,006
<b>Water &amp; Sewer Fund capital assets, net</b>	<b>\$ 15,545,145</b>			<b>\$ 16,009,860</b>

**Discretely Presented Component Unit:**

Activity for the ABC Board for the year ended June 30, 2019, was as follows:

	Cost	Accumulated Depreciation	Net Amount
Buildings	\$ 74,091	\$ 68,371	\$ 5,720
Other Improvements	5,253	5,253	-
Equipment and Furniture	48,121	44,661	3,460.00
Computer equipment	8,062	5,273	2,789.00
Total Depreciable Property	135,527	<u>\$ 123,558</u>	11,969
Land	<u>58,000</u>		<u>58,000</u>
Total	<u>\$ 193,527</u>		<u>\$ 69,969</u>

B. Liabilities1. Pension Plan Obligationsa. Local Governmental Employees' Retirement System

*Plan Description.* The Town is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Town of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2019, was 8.5% of compensation for law enforcement officers and 7.96% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$101,704 for the year ended June 30, 2019.

*Refunds of Contributions* – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2019, the Town reported a liability of \$477,552 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.0201%, which was an increase of 0.0021% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$129,703. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 73,675	\$ 2,472
Change in assumptions	126,724	-
Net difference between projected and actual earnings on pension plan investments	65,554	-
Changes in proportion and differences between Town's contributions and proportionate share of contributions	2,495	34,365
Town's contributions subsequent to the measurement date	101,704	-
Total	<u>\$ 370,152</u>	<u>\$ 36,837</u>

\$101,704 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30</b>	
2019	119,220
2020	72,687
2021	6,245
2022	33,459
2023	-
Thereafter	-
	<u>\$ 231,611</u>

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

Inflation	3.0 percent
Salary Increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of	7.00 percent, net of position plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate.* The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.00 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	<b>1 % Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Town's proportionate share of the net pension liability (asset)	\$ 1,147,122	\$ 477,552	\$ (81,951)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

2. Deferred Outflows and Inflows of Resources

The Town has one deferred outflows of resources. Deferred outflows of resources is comprised of the following:

<u>Source</u>	<u>Amount</u>
Differences between expected and actual experience	\$ 73,675
Change in assumptions	126,724
Net difference between projected and actual earnings on pension plan investments	65,554
Changes in proportion and differences between Town's contributions and proportionate share of contributions	2,495
Town's contributions subsequent to the measurement date	101,704
Total	<u>\$ 370,152</u>

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

Pension deferrals	\$ 48,673
Taxes Receivable	\$ 106,374

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description*

The Town of Warsaw administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	14
Total	<u>14</u>

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

*Basis of Accounting.* The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statement 73.

3. *Actuarial Assumptions*

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

Inflation	2.50 percent
Salary Increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64%

4. *Contributions*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The Town paid \$0 as benefits came due for the reporting period.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2019, the Town reported a total pension liability of \$256,967. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$30,669.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 27,110	\$ -
Changes of assumptions and other inputs	10,412	11,836
Benefit payments and administrative expenses subsequent to the measurement date	-	-
Total	<u>\$ 37,522</u>	<u>\$ 11,836</u>

\$0 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>June 30</u>	
2020	5,208
2021	5,208
2022	5,208
2023	5,310
2024	3,947
Thereafter	805
	<u>\$ 25,686</u>

*Sensitivity of the Town's total pension liability to changes in the discount rate.* The following presents the Town's total pension liability calculated using the discount rate of 3.64 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current rate:

	<b>1 % Decrease (2.46%)</b>	<b>Discount Rate (3.64%)</b>	<b>1% Increase (4.64%)</b>
Town's proportionate share of the net pension liability (asset)	\$ 280,548	\$ 256,967	\$ 235,612

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

	<b>2019</b>
Beginning balance	\$ 221,035
Service Cost	18,476
Interest on the total pension liability	6,985
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	21,502
Changes of assumptions or other inputs	(11,031)
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<u>\$ 256,967</u>

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

**Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources of Related to Pensions**

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension Expense	\$ 129,703	\$ 30,669	\$ 160,372
Pension Liabilities	477,552	256,967	734,519
Proportionate share of the net pension liability	0.0201%	N/A	
Deferred of Outflows of Resources			
Differences between expected and actual experience	73,675	27,110	100,785
Changes of assumption	126,724	10,412	137,136
Net difference between projected and actual earnings on plan investments	65,554	-	65,554
Changes in proportion and differences between contributions and proportionate share of contributions	2,495	-	2,495
Benefit payments and administrative costs paid subsequent to the measurement date	101,704	-	101,704
Deferred of Inflows of Resources			
Difference between expected and actual experience	2,472	-	2,472
Changes of assumptions	-	11,836	11,836
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	34,365	-	34,365

c. Supplemental Retirement Income Plan for Law Enforcement Officers

*Plan Description.* The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers and other employees employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers and other employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$74,549 which consisted of \$44,622 from the Town and \$29,927 from the law enforcement officers and other employees.

## 2. 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. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

## 3. 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 \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits and employee health coverage up to \$2 million lifetime limit. The pools are reinsured for annual employee health claims in excess of \$150,000. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon percentage of the total insurance values.

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. The remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. The Town is not in a flood plain and did not carry any flood insurance.

Town of Warsaw ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverage's. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage in any of the past three fiscal years.

## 4. Claims, Judgments, and Contingent Liabilities

At June 30, 2019, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

5. Long Term Obligations

a. Installment Purchases

*Governmental Activities*

On July 14, 2010 the Town entered into a direct placement installment/purchase contract for the purchase of equipment for the new wellness center. The contract will be paid in annual installments with interest at 4.09%. The balance at June 30, 2019 was \$47,490 for the governmental activities.

On September 16, 2016 the Town entered into a direct placement installment/purchase contract for the purchase of (2) 2016 Dodge Chargers. The contract will be paid in annual installments with interest at 1.99%. The balance at June 30, 2019 was \$20,809 for the governmental activities.

On September 11, 2017 the Town entered into a direct placement installment/purchase contract for the purchase of 2017 Ford Truck. The contract will be paid in annual installments with interest at 2.19%. The balance at June 30, 2019 was \$26,776 for the governmental activities.

*Business-Type Activities*

NC Clean Water Revolving Loan and Grant Program granted the Town a loan of \$1,815,000 on April 7, 2010. One half of the principal was forgiven in 2011. The contract will be paid in annual installments with interest at 0.00%. The balance at June 30, 2019 was \$544,500 for the business-type activities.

The future minimum payments of the direct placement installment purchases as of June 30, 2019 are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2020	58,636	3,620	45,375	-
2021	36,439	2,666	45,375	-
2022	-	-	45,375	-
2023	-	-	45,375	-
2024	-	-	45,375	-
2025-2029	-	-	226,875	-
2030-2032	-	-	90,750	-
	<u>\$ 95,075</u>	<u>\$ 6,286</u>	<u>\$ 544,500</u>	<u>\$ -</u>

Notes to the Financial Statements

Bonds payable at June 30, 2019 are comprised of the following individual issues:

Serviced by the Water and Sewer Fund:

Revenue Bonds

\$1,394,000 Water and Sewer System Revenue Bond, Series 2014 issued on February 19, 2014; interest at 2.3750% due June 1, 2018. Payments ranging from \$23,000 on June 1, 2018 to \$56,000 on June 1, 2053. The first two payments were interest only payments. The balance at June 30, 2019 was \$1,298,000.

Annual debt service requirements to maturity for the note payable for sewer improvements, is as follows:

Business-Type Activities		
Year Ending	Principal	Interest
2020	25,000	30,828
2021	26,000	30,234
2022	26,000	29,616
2023	27,000	28,999
2024	28,000	28,358
2025-2029	148,000	131,600
2030-2034	167,000	113,123
2035-2039	189,000	92,269
2040-2044	210,000	68,876
2045-2049	238,000	42,679
2050-2054	214,000	12,897
Total	<u>\$ 1,298,000</u>	<u>\$ 609,479</u>

The Town has been in compliance with all covenants in Section 3.04 of the Bond Order, authorizing the issuance of the Water and Sewer Revenue Bonds. The debt service coverage ratio calculation for the year ended June 30, 2019, is as follows:

Operating revenues	\$ 1,392,903
Operating expenses*	<u>(1,009,962)</u>
Operating income	382,941
Nonoperating revenues (expenses)**	<u>15,648</u>
Income available for debt service	398,589
Debt service, principal and interest paid (Revenue bond only)	\$ 55,140
Debt service coverage ratio	723%

\* This does not include the depreciation expense of \$558,884.

\*\* This does not include revenue bond interest paid of \$37,561.

The Town has a federal revolving loan for waste water treatment plant construction in the amount of \$1,000,000 at an annual interest rate of 2.570%. The note is payable in 20 annual installments which began May 1, 2002. The balance at June 30, 2019 was \$150,000.

Annual debt service requirements to maturity for the note payable is as follows:

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2020	50,000	3,855
2021	50,000	2,021
2022	50,000	1,285
Total	\$ 150,000	7,161

On September 12, 2017 the Town entered into an installment/purchase contract for the purchase of 2017 Dodge Truck. The contract will be paid in annual installments with interest at 1.79%. The balance at June 30, 2019 was \$20,488 for the business-type activities.

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2020	10,191	567
2021	10,297	567
Total	\$ 20,488	1,134

e. Changes in Long-Term Liabilities

	Balance 1-Jul-18	Increases	Decreases	Balance 30-Jun-19	Current Portion
<b>Governmental activities:</b>					
Installment purchases	\$ 164,055	\$ -	\$ (68,981)	\$ 95,074	\$ 58,636
Net pension liability (LGERS)	264,302	108,189	-	372,491	-
Total pension liability (LEO)	221,035	35,932	-	256,967	-
Compensated absences	54,064	32,911	(24,183)	62,792	24,183
Governmental activity long-term liabilities	\$ 703,456	\$ 177,032	\$ (93,164)	\$ 787,324	\$ 82,819
<b>Business-type activities:</b>					
Compensated absences	\$ 12,277	\$ 3,850	\$ -	\$ 16,127	\$ 16,127
Revolving Loan	200,000	-	(50,000)	150,000	50,000
Net pension liability (LGERS)	74,547	30,514	-	105,061	-
USDA Water & Sewer	1,323,000	-	(25,000)	1,298,000	25,000
Installment purchases	30,679	-	(10,191)	20,488	10,191
Note payable	589,875	-	(45,375)	544,500	45,375
Business-type activity long-term liabilities	\$ 2,230,378	\$ 34,364	\$ (130,566)	\$ 2,134,176	\$ 146,693

At June 30, 2019, the Town of Warsaw had a legal debt margin of \$17,293,842.

Notes to the Financial Statements

C. Interfund Balances and Activity

The composition of balances due to/from other funds as of June 30, 2019 is as follows:

Due to/from other funds on June 30, 2019, consist of the following:

From the Water Fund to the General Fund to supplement cash flow.	\$ 63,235
From the Special Revenue Fund to the General Fund to supplement cash flow.	158,496
Total	<u>\$ 221,731</u>

D. Net Investment in Capital Assets

	Governmental		Business-type
Capital assets	\$ 1,562,797	\$	16,009,860
less: long term debt	95,074		2,012,988
Net investment in capital asset	<u>\$ 1,467,723</u>	<u>\$</u>	<u>13,996,872</u>

Fund Balance

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

E. <b>Total fund balance - General Fund</b>	<b>\$ 2,017,407</b>
<b>Less:</b>	
<b>Stabilization by State Statute</b>	460,800
<b>Streets - Powell Bill</b>	85,694
<b>Reserve requirement</b>	24,124
<b>Remaining Fund Balance</b>	<b>\$ 1,446,789</b>

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. Significant Effects of Subsequent Events

There are no subsequent events that would have a material affect on the financial statements. Subsequent events have been analyzed through the date that the financial statements were available to be issued.

REQUIRED  
SUPPLEMENTAL FINANCIAL DATA

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This section contains additional information required by generally  
accounting principals.

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Schedule of the Proportionate Share of the Net Pension  
Liability – Local Government Employees’ Retirement System

Schedule of Contributions – Local Government Employees’  
Retirement System

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

Schedule of Total Pension Liability as a Percentage of Covered Payroll  
- Law Enforcement Officers' Special Separation Allowance

**Town of Warsaw, North Carolina**  
**Town of Warsaw's Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Six Fiscal Years**

**Local Government Employees' Retirement System**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Town's proportion of the net pension liability (asset) (%)	0.0201%	0.0222%	0.0239%	0.0237%	0.0215%	0.0204%
Town's proportion of the net pension liability (asset) (\$)	\$ 477,552	\$ 338,849	\$ 508,087	\$ 106,275	\$ (126,797)	\$ 245,898
Town's covered-employee payroll	\$ 1,206,481	\$ 1,276,113	\$ 1,304,325	\$ 1,280,772	\$ 1,168,692	\$ 1,086,244
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	39.58%	26.55%	38.95%	8.30%	( 10.85%)	22.64%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

\*\* This will be the same percentage for all participant employers in the LGERS plan.

**Town of Warsaw, North Carolina  
Town of Warsaw's Contributions  
Required Supplementary Information  
Last Six Fiscal Years**

**Local Government Employees' Retirement System**

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 101,705	\$ 96,034	\$ 98,302	\$ 91,160	\$ 93,528	\$ 84,684
Contributions in relation to the contractually required contribution	101,705	96,034	98,302	91,160	93,528	84,684
Contribution deficiency (excess)	<u>\$ -</u>					
Town's covered-employee payroll	\$ 1,242,297	\$ 1,206,481	\$ 1,276,113	\$ 1,304,325	\$ 1,280,772	\$ 1,168,692
Contributions as a percentage of covered-employee payroll	8.19%	7.96%	7.70%	6.99%	7.30%	7.25%

**Town of Warsaw, North Carolina**  
**Schedule of Changes in Total Pension Liability**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 221,035	\$ 171,753	\$ 156,317
Service Cost	18,476	14,828	14,310
Interest on the total pension liability	6,985	6,630	5,581
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	21,502	12,836	-
Changes of assumptions or other inputs	(11,031)	14,988	(4,455)
Benefit payments	-	-	-
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 256,967</u>	<u>\$ 221,035</u>	<u>\$ 171,753</u>

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

**Town of Warsaw, North Carolina**  
**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2019**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Total pension liability	\$ 256,967	\$ 221,035	\$ 171,753
Covered payroll	600,099	607,571	569,500
Total pension liability as a percentage of covered payroll	42.82%	36.38%	30.16%

Notes to the schedules:

The Town of Warsaw has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

## GENERAL FUND

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The General Fund accounts for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in other funds.

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**Town of Warsaw, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2019**

	2019		Variance Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
Ad valorem taxes:			
Taxes	\$	\$ 1,155,617	\$
Penalties and interest		22,800	
Total	1,109,000	1,178,417	69,417
Unrestricted intergovernmental:			
ABC Revenue		4,658	
Utilities sales tax		167,704	
Local option sales taxes		800,160	
Beer and wine tax		13,027	
Telecommunications tax		19,317	
Video programming		8,732	
Refunds		393	
Total	950,400	1,013,991	63,591
Restricted intergovernmental:			
OSBM Grant		32,500	
FEMA		131,869	
Solid waste disposal tax		2,117	
Powell Bill allocation		90,762	
Total	178,000	257,248	79,248
Permits and fees:			
Garbage Fees		335,240	
Zoning Permits		1,985	
Business registration fees		215	
Recreation fees		91,484	
Miscellaneous		2,971	
Police fees		17,430	
Total	446,640	449,325	2,685

**Town of Warsaw, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2019**

	2019		Variance Positive (Negative)
	Budget	Actual	
<b>Sales and services:</b>			
Concession and vending		26,896	
Rents		72,315	
Sales of materials		3,886	
Miscellaneous		16,533	
Total	135,475	119,630	(15,845)
<b>Miscellaneous:</b>			
Contributions		1,325	
Total	1,000	1,325	325
Investment earnings	19,000	50,901	31,901
<b>Total Revenues</b>	<b>2,839,515</b>	<b>3,070,837</b>	<b>231,322</b>
<b>Expenditures:</b>			
<b>General government:</b>			
Administration:			
Salaries & benefits		154,594	
Operating expense		94,444	
Capital Outlay		-	
Total	258,230	249,038	9,192
Total General Government	258,230	249,038	9,192
<b>Environmental:</b>			
Contracted Services		226,058	
Total	250,000	226,058	23,942
<b>Public Works &amp; Streets:</b>			
Salaries & benefits		147,289	
Operating expense		239,638	
Capital Outlay		21,071	
Total	445,592	407,998	37,594

**Town of Warsaw, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2019**

	2019		Variance Positive (Negative)
	Budget	Actual	
Public Safety:			
Salaries & benefits		829,214	
Operating expense		214,648	
Contribution to VFD		129,990	
Capital Outlay		-	
Total	1,270,740	1,173,852	96,888
Recreation/Wellness:			
Salaries & benefits		183,626	
Operating expense		128,221	
Capital Outlay		-	
Total	330,975	311,847	19,128
Debt service:			
Principal		68,981	
Interest		4,976	
Total	74,150	73,957	193
Special projects:			
Library		2,706	
Other		284,917	
Total	411,600	287,623	123,977
Total Expenditures	3,041,287	2,730,373	310,914
Revenues over (under) expenditures	(201,772)	340,464	542,236

**Town of Warsaw, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2019**

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	2019		Variance Positive (Negative)
	Budget	Actual	
Other financing sources (uses):			
Proceeds from Install. Purchase	-	-	
Transfers from other funds	-	-	
Transfers to other funds	-	-	
Fund Balance Appropriated	201,772	-	
Total	201,772	-	(201,772)
Net change in			
Fund Balance	\$ -	340,464	\$ 340,464
Fund balances:			
Beginning of year, July 1		1,676,943	
End of year, June 30		\$ 2,017,407	

## SPECIAL REVENUE FUNDS

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Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

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**Town of Warsaw, North Carolina**  
**Special Revenue Fund - Grant Project Fund**  
**EDRL Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**From Inception and For the Fiscal Year Ended June 30, 2019**

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues:</b>					
Restricted intergovernmental	\$ 434,032	\$ 1,396	\$ -	\$ 1,396	\$ (432,636)
Investment Earnings	-	473,390	56,559	529,949	529,949
Other Income	10,000	492,681	10,105	502,786	492,786
<b>Total</b>	<u>444,032</u>	<u>967,467</u>	<u>66,664</u>	<u>1,034,131</u>	<u>590,099</u>
<b>Expenditures:</b>					
<b>Current:</b>					
<b>Economic and physical development:</b>					
Development	200,000	53,363	-	53,363	146,637
Incentive grants	10,000	13,837	-	13,837	(3,837)
<b>Total expenditures</b>	<u>210,000</u>	<u>67,200</u>	<u>-</u>	<u>67,200</u>	<u>142,800</u>
Revenues over expenditures	<u>234,032</u>	<u>900,267</u>	66,664	<u>966,931</u>	<u>1,200,963</u>
<b>Other financing sources:</b>					
Transfers in (out)	<u>(234,032)</u>	<u>(282,598)</u>	-	<u>(282,598)</u>	<u>(48,566)</u>
Revenues and other sources over expenditures and other (uses)	<u>\$ -</u>	<u>\$ 617,669</u>	66,664	<u>\$ 684,333</u>	<u>\$ 684,333</u>
<b>Fund balances:</b>					
Beginning of year, July 1			<u>617,669</u>		
End of year, June 30			<u>\$ 684,333</u>		

**Town of Warsaw, North Carolina**  
**Combining Balance Sheets**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2019**

	<u>Recreation Capital Project</u>	<u>Totals</u>
<b>Assets</b>		
Cash and Investments	\$ 273,703	\$ 273,703
Due other funds	-	-
Accounts Receivable	<u>3,303</u>	<u>3,303</u>
Total Assets	<u>\$ 277,006</u>	<u>\$ 277,006</u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities:</b>		
Due to other funds	\$ -	\$ -
Deferred revenue	-	-
Accounts payable	<u>7,586</u>	<u>7,586</u>
Total liabilities	<u>7,586</u>	<u>7,586</u>
<b>Fund Balances:</b>		
Restricted		
Stabilization by State Statute	3,303	3,303
Fund Balance - Undesignated	<u>266,117</u>	<u>266,117</u>
Total fund balances	<u>269,420</u>	<u>269,420</u>
Total Liabilities and Fund Balances	<u>\$ 277,006</u>	<u>\$ 277,006</u>

**Town of Warsaw, North Carolina**  
**Combining Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Years Ended June 30, 2019**

	<u>Recreation Capital Project</u>	<u>Totals</u>	
Revenues:			
Restricted Revenue	\$ -	\$ -	
Local contributions	-	-	
Investment Income	36	36	
Miscellaneous	<u>81,700</u>	<u>81,700</u>	
Total Revenues	<u>81,736</u>	<u>81,736</u>	
Expenditures:			
Current:			
Economic and physical development:			
Recreation	<u>-</u>	<u>-</u>	
Total Expenditures	<u>-</u>	<u>-</u>	
Revenues over expenditures	81,736	81,736	
Other Financing Sources (Uses):			
Loan	-	-	
Transfers In (Out)	<u>-</u>	<u>-</u>	
Total other financing sources	-	-	
Revenues over expenditures and other financing sources and (uses)	81,736	81,736	
Fund balances:			
Beginning of year, July 1	<u>187,684</u>	<u>187,684</u>	
End of year, June 30	<u>\$ 269,420</u>	<u>\$ 269,420</u>	

**Town of Warsaw, North Carolina**  
**Special Revenue Fund - Grant Project Fund**  
**Recreation Capital Project**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**From Inception and For the Fiscal Year Ended June 30, 2019**

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues:</b>					
Restricted intergovernmental					
Community Development					
Grants	\$ 300,000	\$ 270,000	\$ -	\$ 270,000	\$ (30,000)
Interest	-	18	36	54	54
Miscellaneous	-	2,986	-	2,986	2,986
Contributions/Other	170,000	513,681	81,700	595,381	425,381
Total	<u>470,000</u>	<u>786,685</u>	<u>81,736</u>	<u>868,421</u>	<u>398,421</u>
<b>Expenditures:</b>					
Recreation					
Capital Outlay	578,000	988,599	-	988,599	(410,599)
Equipment	305,983	-	-	-	305,983
Total expenditures	<u>883,983</u>	<u>988,599</u>	<u>-</u>	<u>988,599</u>	<u>(104,616)</u>
Revenues over expenditures	-	(201,914)	81,736	(120,178)	293,805
<b>Other financing sources:</b>					
Loan	-	-	-	-	-
Transfers in (out)	413,983	389,598	-	389,598	(24,385)
Total other financing sources	413,983	389,598	-	389,598	(24,385)
Revenues and other sources over expenditures and other (uses)	\$ -	\$ <u>187,684</u>	81,736	\$ <u>269,420</u>	\$ <u>269,420</u>
<b>Fund balances:</b>					
Beginning of year, July 1			<u>187,684</u>		
End of year, June 30			\$ <u>269,420</u>		

## PROPRIETARY FUNDS

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Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

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**Town of Warsaw, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2019**

	2019		Variance Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
Charges for services:			
Water sales:			
Residential & Commercial	\$	\$ 1,259,455	\$
Water and Sewer taps		6,301	
Other operating revenues		127,147	
Total	<u>1,333,500</u>	<u>1,392,903</u>	<u>59,403</u>
Nonoperating revenues:			
Interest earnings	-	15,648	
Total	<u>4,100</u>	<u>15,648</u>	<u>11,548</u>
Total Revenues	<u>1,337,600</u>	<u>1,408,551</u>	<u>70,951</u>
<b>Expenditures:</b>			
Water Operations:			
Salaries and benefits		468,848	
Contracted services		6,488	
Utilities		121,312	
Insurance		26,044	
Maintenance and repairs		195,499	
Other		34,668	
Automotive supplies		44,170	
Departmental supplies and materials		102,923	
Total	<u>1,117,600</u>	<u>999,952</u>	<u>117,648</u>
Debt service:			
Interest and fees		37,561	
Principal retirement		130,566	
Total debt service	<u>170,000</u>	<u>168,127</u>	<u>1,873</u>
Capital outlay:			
Water and sewer expansion		-	
Land acquisition		-	
Equipment		42,143	
Miscellaneous		-	
Total capital outlay	<u>50,000</u>	<u>42,143</u>	<u>7,857</u>
Total expenditures	<u>1,337,600</u>	<u>1,210,222</u>	<u>127,378</u>
Revenues over (under) expenditures	-	198,329	198,329

**Town of Warsaw, North Carolina  
Water and Sewer Fund  
Schedule of Revenues and Expenditures  
Budget and Actual (Non - GAAP)  
For the Fiscal Year Ended June 30, 2019**

	2019		Variance Positive (Negative)
	Budget	Actual	
Other financing sources (uses):			
Transfers to capital project	-	-	
Installment purchase proceeds	-	-	
Fund balance appropriated	-	-	
Total other financing sources	-	-	
(uses):	-	-	-
Revenues and other sources over expenditures and other uses	\$ -	\$ 198,329	\$ 198,329

**Reconciliation from budgetary basis  
(modified accrual) to full accrual:**

Revenues over expenditures	\$ 198,329
Reconciling items:	
Capital outlay	42,143
Transfers to capital project	-
Installment purchase proceeds	-
Change in accrued vacation pay	(3,850)
(Increase) decrease in net pension liability	(30,515)
Increase (decrease) in deferred outflows of resources for pensions	25,529
(Increase) decrease in deferred inflows of resources for pensions	(1,174)
Depreciation	(558,884)
Capital contributions	981,417
Principal retirement	130,566
Total reconciling items	585,232
Change in net position	\$ 783,561

**Town of Warsaw, North Carolina**  
**Water Project**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)**  
**From Inception and for the Fiscal Year Ended June 30, 2019**

	Project Author - ization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues - Water Project:</b>					
Restricted intergovernmental:					
Grant	\$ 3,000,000	\$ 1,532,802	\$ 981,417	\$ 2,514,219	\$ (485,781)
Local Funds	50,000	50,000	-	50,000	-
Total	<u>3,050,000</u>	<u>1,582,802</u>	<u>981,417</u>	<u>2,564,219</u>	<u>(485,781)</u>
<b>Expenditures - Sewer Project:</b>					
Construction	2,751,000	1,341,482	853,627	2,195,109	555,891
Administration	299,000	192,697	127,920	320,617	(21,617)
Total	<u>3,050,000</u>	<u>1,534,179</u>	<u>981,547</u>	<u>2,515,726</u>	<u>534,274</u>
Revenues under expenditures	<u>-</u>	<u>48,623</u>	<u>(130)</u>	<u>48,493</u>	<u>48,493</u>
<b>Other financing sources (uses)</b>					
Loan-USDA	-	-	-	-	-
Transfer in(out)	-	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 48,623</u>	<u>\$ (130)</u>	<u>\$ 48,493</u>	<u>\$ 48,493</u>

## OTHER SCHEDULES

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This section includes additional information on property taxes, transfers, and cash and investments.

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

**Town of Warsaw, North Carolina**  
**General Fund**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2019**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018-2019	\$	\$ 1,195,488	\$ (1,158,595)	\$ 36,893
2017-2018	32,476	-	(19,441)	13,035
2016-2017	13,928	-	(6,830)	7,098
2015-2016	23,414	-	(9,852)	13,562
2014-2105	16,338	-	(5,745)	10,593
2013-2014	12,228	-	(4,218)	8,010
2012-2013	6,904	-	(437)	6,467
2011-2012	9,390	-	(3,626)	5,764
2010-2011	4,958	-	(2,047)	2,911
2009-2010	3,771	-	(1,730)	2,041
2008-2009	2,670	-	(2,670)	-
	<u>\$ 126,077</u>	<u>\$ 1,195,488</u>	<u>\$ (1,215,191)</u>	<u>\$ 106,374</u>

Ad valorem taxes receivable - net \$ 106,374

Reconcilement with revenues:

Ad valorem taxes - General Fund	\$ 1,178,417
Reconciling items:	
Taxes written off	59,574
Interest collected	<u>(22,800)</u>
Total collections and credits	<u>\$ 1,215,191</u>

**Town of Warsaw, North Carolina**  
**Analysis of Current Tax Levy**  
**Town - Wide Levy**  
**For the Fiscal Year Ended June 30, 2019**

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Property taxed at current year's rate	\$ 217,361,455	\$ 0.55	\$ 1,195,488	\$ 1,118,841	\$ 76,647
Penalties	-		-	-	-
Total	<u>217,361,455</u>		<u>1,195,488</u>	<u>1,118,841</u>	<u>76,647</u>
Total property valuation	<u>\$ 217,361,455</u>				
Net levy			1,195,488	1,118,841	76,647
Uncollected taxes at June 30, 2019			<u>(36,893)</u>	<u>(36,893)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 1,158,595</u>	<u>\$ 1,081,948</u>	<u>\$ 76,647</u>
Current levy collection percentage			<u>96.91%</u>	<u>96.70%</u>	<u>100.00%</u>

## COMPLIANCE SECTION



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

**Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Town of Warsaw as of and for the year ended June 30, 2019 and the related notes to the financial statement, which collectively comprises Town of Warsaw's basic financial statements, and have issued our report thereon dated February 7, 2020. The financial statements of the Town of Warsaw ABC Board were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Warsaw's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Warsaw's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies, listed as 2019-001.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Warsaw'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs, 2019-002.

#### Town of Warsaw's Response to Findings

The Town of Warsaw's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Thompson, Price, Scott, Adams & Co., PA*

*Wilmington, North Carolina*

*February 7, 2020*



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## **Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; With OMB Uniform Guidance and the State Single Audit Implementation Act**

### **Independent Auditor's Report**

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

#### **Report on Compliance for Each Major Federal Program**

We have audited Town of Warsaw, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Warsaw's major federal programs for the year ended June 30, 2019. Town of Warsaw's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Town of Warsaw's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Warsaw's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Warsaw's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the Town of Warsaw complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

Town of Warsaw's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

Management of the Town of Warsaw is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Warsaw's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Thompson, Price, Scott, Adams & Co., PA*

*Wilmington, North Carolina*

*February 7, 2020*

**Town of Warsaw, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2019**

Section I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

Material weaknesses identified?  Yes  No

Significant Deficiency(s) identified?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major federal programs:

Material weaknesses identified?  Yes  No

Significant Deficiency(s) identified?  Yes  No

Type of auditor's report issued on compliance for major federal programs: Unmodified.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
14.228	Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs \$ 750,000

Auditee qualified as low-risk auditee?  Yes  No

**Town of Warsaw, North Carolina**  
**Schedule of Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2019**

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Section II. Financial Statement Findings

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SIGNIFICANT DEFICIENCY

2019-001                    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 personnel.

Effect: Transactions could be mishandled

Cause: There are a limited number of personnel for certain functions.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2018-001.

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

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will adhere to the corrective action plan to follow.

**Town of Warsaw, North Carolina**  
**Schedule of Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2019**

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Section III. Federal Award Findings and Question Costs

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SIGNIFICANT DEFICIENCY

2019-002 Timeliness of Data Collection Form Submission

Criteria: The June 30, 2018 data collection form was submitted passed the required due date.

Condition: Required reports to the federal audit clearinghouse were not filed by the required due date.

Context: Hurricane Florence made landfall in September this caused widespread flooding along a long stretch of the North Carolina coast, from New Bern to Wilmington. The audit firm had its central office in Wilmington, North Carolina flooded requiring extensive repairs. Due to this natural disaster the audit firm was unable to timely complete the data collection form submission.

Effect: The reports are a requirement of Uniform Guidance, lateness created a deficiency.

Cause: Hurricane Florence caused delays in completing required data collection form submission.

Recommendation: The audit firm will ensure adequate back up personnel and space are available for future disasters.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and has already taken action.

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Section IV. State Award Findings and Question Costs

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None Reported.



**Town of Warsaw, North Carolina  
Corrective Action Plan  
For the Fiscal Year Ended June 30, 2019**

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Section II - Financial Statement Findings

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2019 - 001

Name of Contact Person: A.J. Connors, Mayor

Corrective Action: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The governing board will become more involved in providing some of these controls.

Proposed Completion Date: The Board will implement the above procedure immediately

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Section III - Federal Award Findings and Questioned Costs

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2019 - 002

Name of Contact Person: A.J. Connors, Mayor

Corrective Action: The audit firm will use resources from other unaffected offices to ensure timeliness of required filings.

Proposed Completion Date: The Board will implement the above procedure immediately.

**Town of Warsaw, North Carolina  
Summary Schedule of Prior Year Audit Findings  
For the Year Ended June 30, 2019**

2018 - 001      Still occurring.

**TOWN OF WARSAW, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Fiscal Year Ended June 30, 2019**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct &amp; Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<b>Federal Awards:</b>					
<u>U. S. Department of Homeland Security</u>					
Passed-through N.C. Department of Public Safety:					
Division of Emergency Management Disaster					
Grants-Public Assistance (Presidentially Declared Disasters)					
	97.036		145,775	48,592	-
<u>U.S. Dept. of Housing and Urban Development (HUD)</u>					
Passed-through the N.C. Department of Environmental Quality:					
Community Development Block Grant, State's Program					
	14.228	H-CDBG-I-2015- 00002704	981,547	-	-
<b>State Grants:</b>					
<b>Cash Assistance:</b>					
<u>N.C. Department of Transportation:</u>					
Powell Bill					
	DOT - 4	N/A	-	91,534	-
Total assistance			<u>\$ 1,127,322</u>	<u>\$ 140,126</u>	<u>\$ -</u>

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Town of Warsaw under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a select portion of the operations of the Town of Warsaw, it is not intended to and does not present the financial position, changes in net position or cash flows of the Town of Warsaw.

**Note 2: Summary of Significant Accounting Policies**

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursements.

**Note 3: Indirect Cost Rate**

Warsaw has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.