

TOWN OF WARSAW  
Warsaw, North Carolina

FINANCIAL STATEMENTS  
Year Ended June 30, 2020

TOWN OF WARSAW

Warsaw, North Carolina

BOARD OF COMMISSIONERS

Owen Martin  
Valerie Nelson  
Russell Eason  
Jack Hawes

ADMINISTRATIVE OFFICERS

A.J. Connors  
Mayor

Scotty Smith  
Mayor Pro-Tem

Scotty Summerlin  
Town Manager

Lea Turner  
Town Clerk/Finance Officer

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June 30, 2020**

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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, 2020, 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 audit 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, 2020, 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 Other Postemployment Benefits' Schedules of Changes in the Total OPEB Liability and Related Ratios, 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, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, and other schedules 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, and other schedules 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 January 27, 2021 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  
January 27, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## Management's Discussion and Analysis

As management of the Town of Warsaw (the "Town"), 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, 2020. 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

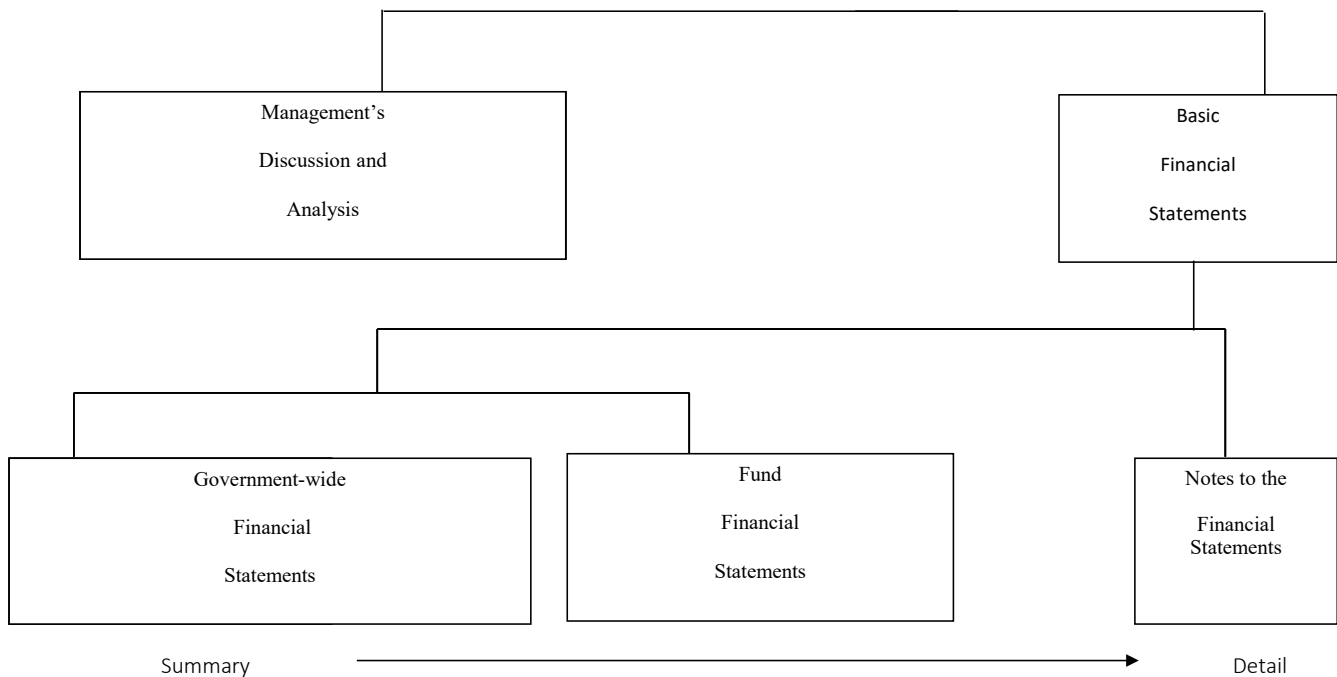
- The assets and deferred outflows of resources of the Town of Warsaw exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$20,755,227 (net position).
- The Town's total net position increased by \$538,508, primarily due to increase in both governmental-type and 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 \$3,263,827, an increase of \$292,667 in comparison with the prior year. Approximately 65 percent of this total amount, or \$2,135,309 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 \$2,135,309 or 72% of total general fund expenditures for the fiscal year.
- The Town of Warsaw's total debt decreased by \$212,252 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	2020	2019	2020	2019	2020
Current and other assets	\$ 3,165,878	\$ 3,491,865	\$ 2,290,871	\$ 2,621,880	\$ 5,456,749	\$ 6,113,745
Capital assets	1,562,797	1,591,696	16,009,860	15,884,172	17,572,657	17,475,868
Total assets	4,728,675	5,083,561	18,300,731	18,506,052	23,029,406	23,589,613
Deferred outflows of resources	326,241	279,229	81,433	68,529	407,674	347,758
Long-term liabilities outstanding	763,141	727,044	2,259,487	2,158,478	3,022,628	2,885,522
Other liabilities	82,007	127,742	23,913	87,679	105,920	215,421
Total liabilities	845,148	854,786	2,283,400	2,246,157	3,128,548	3,100,943
Deferred inflows of resources	40,569	72,074	8,104	13,230	48,673	85,304
Net position:						
Net investment in capital assets	1,467,723	1,578,308	13,996,872	14,001,750	15,464,595	15,580,058
Restricted	937,650	754,209	-	-	937,650	754,209
Unrestricted	1,763,826	2,103,413	2,093,788	2,317,547	3,857,614	4,420,960
Total net position	\$ 4,169,199	\$ 4,435,930	\$ 16,090,660	\$ 16,319,297	\$ 20,259,859	\$ 20,755,227

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 \$20,755,227 as of June 30, 2020. The Town's net position increased by \$538,508 for the fiscal year ended June 30, 2020. However, the largest portion \$15,580,058 (75%) 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, \$754,209 (4%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,420,960 (21%) 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 96.4%.

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

**Figure 3**

	Governmental Activities	Governmental Activities	Business Type Activities	Business Type Activities	Total	
	2019	2020	2019	2020	2019	2020
Revenues:						
Program revenues:						
Charges for services	\$ 662,085	\$ 647,346	\$ 1,330,405	\$ 1,610,024	\$ 1,992,490	\$ 2,257,370
Operating grants and contributions	257,248	144,161	62,498	-	319,746	144,161
Capital grants and contributions	-	-	981,417	485,782	981,417	485,782
General revenues:						
Property taxes	1,151,524	1,288,036	-	-	1,151,524	1,288,036
Other taxes	1,013,991	1,021,010	-	-	1,013,991	1,021,010
Other	107,496	114,757	15,648	11,266	123,144	126,023
Total revenues	3,192,344	3,215,310	2,389,968	2,107,072	5,582,312	5,322,382
Expenses:						
General government	276,268	320,741	-	-	276,268	320,741
Public safety	1,286,596	1,333,244	-	-	1,286,596	1,333,244
Highways/streets	398,034	383,305	-	-	398,034	383,305
Environmental Protection	226,058	273,809	-	-	226,058	273,809
Economic development	-	-	-	-	-	-
Culture and recreation	338,608	406,016	-	-	338,608	406,016
Interest on long-term debt	4,976	8,680	-	-	4,976	8,680
Water and sewer	-	-	1,606,407	1,820,727	1,606,407	1,820,727
Other	287,623	237,352	-	-	287,623	237,352
Total expenses	2,818,163	2,963,147	1,606,407	1,820,727	4,424,570	4,783,874
Increase in net position before transfers	374,181	252,163	783,561	286,345	1,157,742	538,508
Transfers	-	48,217	-	(48,217)	-	-
Increase in net position	374,181	300,380	783,561	238,128	1,157,742	538,508
Net position, beginning as previously reported	3,795,018	4,169,199	15,307,099	16,090,660	19,102,117	20,259,859
Restatement	-	(33,649)	-	(9,491)	-	(43,140)
Net position, beginning restated	3,795,018	4,135,550	15,307,099	16,081,169	19,102,117	20,216,719
Net position, ending	\$ 4,169,199	\$ 4,435,930	\$ 16,090,660	\$ 16,319,297	\$ 20,259,859	\$ 20,755,227

## Management Discussion and Analysis

### Town of Warsaw

**Governmental activities.** Governmental activities increased the Town's net position by \$300,380 thereby accounting for 56% 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 \$238,128, accounting for 44% 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 \$2,135,309, while total fund balance reached \$2,525,788.

At June 30, 2020 the governmental funds of Town of Warsaw reported a combined fund balance of \$3,263,827, with a net increase in fund balance of \$292,667.

**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 \$2,317,547. The total change in net position was \$16,319,297. 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, 2020 totals \$17,485,868 (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:

- Street Sweeper
- Ram Truck

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

	Governmental Activities		Business-type Activities		Total	
	2019	2020	2019	2020	2019	2020
Land	\$ 65,727	\$ 65,727	\$ 33,218	\$ 33,218	\$ 98,945	\$ 98,945
Buildings and system	272,536	1,223,741	13,383,103	15,783,211	13,655,639	17,006,952
Infrastructure	22,088	17,205	-	-	22,088	17,205
Vehicles and motor equipment	213,847	285,023	77,903	77,743	291,750	362,766
Construction in progress	988,599	-	2,515,636	-	3,504,235	-
<b>Total</b>	<b>\$ 1,562,797</b>	<b>\$ 1,591,696</b>	<b>\$ 16,009,860</b>	<b>\$ 15,894,172</b>	<b>\$ 17,572,657</b>	<b>\$ 17,485,868</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, 2020 the Town of Warsaw had total debt outstanding of \$1,895,810.

#### **Town of Warsaw's Outstanding Debt**

The Town of Warsaw's total debt decreased by \$212,252 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 \$18,815,747.

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, 2021**

**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.



## **BASIC FINANCIAL STATEMENTS**

**Town of Warsaw, North Carolina**  
**Statement of Net Position**  
**June 30, 2020**

	<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	\$ 2,601,540	\$ 2,259,651	\$ 4,861,191	\$ 79,114
Restricted cash	98,258	155,306	253,564	-
Receivables (net)	728,832	270,158	998,990	-
Inventories	-	-	-	155,400
Internal balances	63,235	(63,235)	-	-
Non Current Assets:				
Capital assets:				
Land, improvements, and construction in progress	65,727	33,218	98,945	58,000
Other capital assets, net of depreciation	1,525,969	15,850,954	17,376,923	17,895
Total capital assets	<u>1,591,696</u>	<u>15,884,172</u>	<u>17,475,868</u>	<u>75,895</u>
Total assets	<u>5,083,561</u>	<u>18,506,052</u>	<u>23,589,613</u>	<u>310,409</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 279,229</u>	<u>\$ 68,529</u>	<u>\$ 347,758</u>	<u>\$ 11,526</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 91,915	\$ 74,480	\$ 166,395	\$ 29,878
Compensated absences payable	35,827	13,199	49,026	-
Long-term liabilities:				
Liabilities payable from restricted assets:				
Deposits	-	155,306	155,306	-
Compensated absences payable	35,075	-	35,075	-
Net pension liability	379,161	106,943	486,104	13,108
Total pension liability	250,470	-	250,470	-
Total OPEB liability	48,950	13,807	62,757	-
Due within one year	13,388	131,672	145,060	-
Due in more than one year	-	1,750,750	1,750,750	-
Total liabilities	<u>854,786</u>	<u>2,246,157</u>	<u>3,100,943</u>	<u>42,986</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>72,074</u>	<u>9,127</u>	<u>81,201</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,578,308	14,001,750	15,580,058	75,895
Restricted for:				
Working Capital	-	-	-	26,209
Stabilization by State Statute	655,951	-	655,951	-
Streets	71,407	-	71,407	-
Economic development	-	-	-	-
Other	26,851	-	26,851	-
Unrestricted (deficit)	2,103,413	2,317,547	4,420,960	176,845
Total net position	<u>\$ 4,435,930</u>	<u>\$ 16,319,297</u>	<u>\$ 20,755,227</u>	<u>\$ 278,949</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, 2020**

Program Revenues					Net (Expense) Revenue and Changes in Net Position				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Town of Warsaw ABC Board	
					Governmental Activities	Business-type Activities	Total		
Primary government:									
Governmental Activities:									
General government	\$ 320,741	\$ 186,614	\$ -	\$ -	\$ (134,127)	\$ -	\$ (134,127)	\$ -	
Public safety	1,333,244	54,785	2,253	-	(1,276,206)	-	(1,276,206)	-	
Transportation	383,305	-	89,045	-	(294,260)	-	(294,260)	-	
Environmental protection	273,809	334,676	52,863	-	113,730	-	113,730	-	
Recreational	406,016	71,271	-	-	(334,745)	-	(334,745)	-	
Special projects	237,352	-	-	-	(237,352)	-	(237,352)	-	
Interest on long-term debt	8,680	-	-	-	(8,680)	-	(8,680)	-	
Total governmental activities	2,963,147	647,346	144,161	-	(2,171,640)	-	(2,171,640)	-	
Business-type activities:									
Water and Sewer	1,820,727	1,610,024	-	485,782	-	275,079	275,079	-	
Total business-type activities	1,820,727	1,610,024	-	485,782	-	275,079	275,079	-	
Total Primary Government	\$ 4,783,874	\$ 2,257,370	\$ 144,161	\$ 485,782	(2,171,640)	275,079	(1,896,561)	-	
Component unit:									
ABC Board	\$ 843,373	\$ 887,173	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,800	
Total component unit	\$ 843,373	\$ 887,173	\$ -	\$ -	-	-	-	43,800	
General revenues:									
Taxes:									
Property taxes, levied for general purpose					1,288,036	-	1,288,036	-	
Local option sales tax					816,179	-	816,179	-	
Other taxes and licenses					204,831	-	204,831	-	
Grants and contributions not restricted to specific programs					-	-	-	-	
Investment earnings, unrestricted					86,475	11,266	97,741	9	
Miscellaneous, unrestricted					28,282	-	28,282	-	
Total general revenues not including transfers					2,423,803	11,266	2,435,069	9	
Transfers					48,217	(48,217)	-	-	
Total general revenues and transfers					2,472,020	(36,951)	2,435,069	9	
Change in net position					300,380	238,128	538,508	43,809	
Net position, beginning, previously reported					4,169,199	16,090,660	20,259,859	235,140	
Restatement					(33,649)	(9,491)	(43,140)	-	
Total net positions, beginning, restated					4,135,550	16,081,169	20,216,719	-	
Net position, ending					\$ 4,435,930	\$ 16,319,297	\$ 20,755,227	\$ 278,949	

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

**Town of Warsaw, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2020**

	<b>Major Funds</b>			
	<b>General Fund</b>	<b>Economic Revolving Loan Fund</b>	<b>Total Non- Major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,227,224	\$ 374,316	\$ -	\$ 2,601,540
Restricted cash	98,258	-	-	98,258
Taxes receivables, net	109,237	-	-	109,237
Account receivables, net	228,979	363,730	-	592,709
Due from other funds	63,242	-	-	63,242
Total assets	<u>\$ 2,726,940</u>	<u>\$ 738,046</u>	<u>\$ -</u>	<u>\$ 3,464,986</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 91,915	\$ -	\$ -	\$ 91,915
Due to other funds	-	7	-	7
Total liabilities	<u>91,915</u>	<u>7</u>	<u>-</u>	<u>91,922</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes receivable	109,237	-	-	109,237
Total deferred inflows of resources	<u>109,237</u>	<u>-</u>	<u>-</u>	<u>109,237</u>
<b>FUND BALANCES</b>				
Restricted				
Streets - Powell Bill	71,407	-	-	71,407
Stabilization by State Statute	292,221	363,730	-	655,951
Economic development	-	374,309	-	374,309
Reserve requirement	26,851	-	-	26,851
Unassigned	<u>2,135,309</u>	<u>-</u>	<u>-</u>	<u>2,135,309</u>
Total fund balances	<u>2,525,788</u>	<u>738,039</u>	<u>-</u>	<u>3,263,827</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,726,940</u>	<u>\$ 738,046</u>	<u>\$ -</u>	<u>\$ 3,464,986</u>

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

1,591,696

Deferred outflows of resources related to pensions are not reported in the funds.

279,229

Liabilities for earned revenues considered deferred inflows of resources in fund statements.

109,237

Other long-term assets (accrued interest from taxes) are not available to pay current period expenditures and therefore are deferred in the funds.

26,886

Deferred inflows of resources related to pensions are not reported in the funds

(72,074)

Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds

Net pension liability.

(379,161)

Total pension liability.

(250,470)

OPEB liability.

(48,950)

Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

(84,290)

Net position of governmental activities

\$ 4,435,930

**Town of Warsaw, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2020**

	<b>Major Funds</b>			<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Economic Revolving Loan Fund</b>	<b>Total Non-Major Fund</b>	
<b>REVENUES</b>				
Ad valorem taxes	\$ 1,288,807	\$ -	\$ -	\$ 1,288,807
Unrestricted intergovernmental	1,021,010	-	-	1,021,010
Restricted intergovernmental	91,313	-	-	91,313
Permits and fees	462,832	-	-	462,832
Sales and services	184,514	-	-	184,514
Investment earnings	39,770	46,681	24	86,475
Miscellaneous	52,848	7,025	4,283	64,156
Total revenues	<u>3,141,094</u>	<u>53,706</u>	<u>4,307</u>	<u>3,199,107</u>
<b>EXPENDITURES</b>				
Current:				
General government	288,761	-	-	288,761
Public safety	1,227,873	-	-	1,227,873
Public Works & Streets	512,234	-	-	512,234
Special projects	237,352	-	-	237,352
Environmental protection	273,809	-	-	273,809
Recreational	341,236	-	-	341,236
Debt service	90,366	-	-	90,366
Economic development	-	-	-	-
Total expenditures	<u>2,971,631</u>	<u>-</u>	<u>-</u>	<u>2,971,631</u>
Excess (deficiency) of revenues over expenditures	<u>169,463</u>	<u>53,706</u>	<u>4,307</u>	<u>227,476</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to other funds	-	-	(273,727)	(273,727)
Transfers from other funds	321,944	-	-	321,944
Insurance recovery	16,974	-	-	16,974
Total other financing sources and uses	<u>338,918</u>	<u>-</u>	<u>(273,727)</u>	<u>65,191</u>
Net change in fund balance	508,381	53,706	(269,420)	292,667
Fund balances-beginning	2,017,407	684,333	269,420	2,971,160
Fund balances-ending	<u>\$ 2,525,788</u>	<u>\$ 738,039</u>	<u>\$ -</u>	<u>\$ 3,263,827</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, 2020**

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

Net changes in fund balances - total governmental funds	\$ 292,667
<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	164,021
Depreciation expense for governmental assets	<u>(135,122)</u>
	28,899
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	93,815
<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	(771)
<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	(8,110)
Pension and OPEB expense	(187,806)
<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>81,686</u>
Total changes in net position of governmental activities	<u><u>\$ 300,380</u></u>

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

**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, 2020**

	<b>General Fund</b>			
	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 1,164,000	\$ 1,229,715	\$ 1,288,807	\$ 59,092
Unrestricted intergovernmental	1,050,400	1,050,400	1,021,010	(29,390)
Restricted intergovernmental	93,100	91,100	91,313	213
Permits and fees	359,500	356,900	462,832	105,932
Sales and services	169,600	177,600	184,514	6,914
Investment earnings	23,000	23,000	39,770	16,770
Miscellaneous	5,250	5,250	52,848	47,598
Total revenues	<u>2,864,850</u>	<u>2,933,965</u>	<u>3,141,094</u>	<u>207,129</u>
Expenditures				
Current:				
General government	290,320	290,230	288,761	1,469
Public safety	1,399,950	1,339,950	1,227,873	112,077
Public Works & Streets	401,898	574,200	512,234	61,966
Recreation	342,520	342,520	341,236	1,284
Special projects	256,668	256,668	237,352	19,316
Debt service	92,072	92,072	90,366	1,706
Environmental	275,000	275,000	273,809	1,191
Economic development	-	-	-	-
Total expenditures	<u>3,058,428</u>	<u>3,170,640</u>	<u>2,971,631</u>	<u>199,009</u>
Revenues over (under) expenditures	(193,578)	(236,675)	169,463	406,138
Other financing sources (uses):				
Installment purchase obligations issued	172,000	172,000	-	172,000
Transfers (to)/from	-	63,900	321,944	258,044
Insurance recovery	775	775	16,974	16,199
Fund Balance Appropriated	20,803	-	-	-
Total other financing sources (uses)	<u>193,578</u>	<u>236,675</u>	<u>338,918</u>	<u>102,243</u>
Net change in fund balance	\$ <u>-</u>	\$ <u>-</u>	508,381	\$ <u>508,381</u>
Fund Balance, Beginning			2,017,407	
Fund Balance, Ending			\$ <u>2,525,788</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, 2020**

	<u>Major Enterprise Fund</u>
	<u>Water and Sewer Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 2,259,651
Restricted cash	155,306
Accounts Receivable (net)	<u>270,158</u>
Total	<u>2,685,115</u>
Noncurrent assets:	
Capital assets (net)	<u>15,884,172</u>
Total assets	<u>18,569,287</u>
Deferred Outflows of Resources	<u>68,529</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable and accrued liabilities	74,480
Compensated absences payable	13,199
Due to other funds	63,235
Current portion of long-term debt	<u>131,672</u>
Total	<u>282,586</u>
Noncurrent liabilities:	
Liabilities payable from restricted assets:	
Deposits	155,306
Net pension liability	106,943
Other postemployment benefits	13,807
Non-current portion of long-term debt	<u>1,750,750</u>
Total noncurrent liabilities	<u>2,026,806</u>
Total liabilities	<u>2,309,392</u>
Deferred Inflows of Resources	<u>9,127</u>
<b>Net Position</b>	
Net investment in capital assets	14,001,750
Unrestricted	<u>2,317,547</u>
Total net position	<u>\$ 16,319,297</u>

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, 2020**

	Major Enterprise Fund
	Water and Sewer Fund
Operating revenues:	
Charges for services	\$ 1,499,502
Water & Sewer taps	4,900
Other operating revenues	105,622
Total operating revenues	<u>1,610,024</u>
Operating expenses:	
Operations	1,148,216
Depreciation	637,828
Total operating expenses	<u>1,786,044</u>
Operating income	<u>(176,020)</u>
Nonoperating revenues (expenses):	
Investment earnings	11,266
Interest and fees	(34,683)
Total nonoperating revenues (expenses)	<u>(23,417)</u>
Income before transfers	<u>(199,437)</u>
Transfers	(48,217)
Capital Contributions	485,782
Total capital contributions and transfers	<u>437,565</u>
Change in net position	238,128
Net Position - beginning, previously reported	16,090,660
Restatement	(9,491)
Total net position, beginning, Restated	<u>16,081,169</u>
Total net position, ending	<u>\$ 16,319,297</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, 2020**

	Major Enterprise Fund <u>Water and Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 1,583,643
Cash paid for goods and services	(592,788)
Cash paid to employees for services	(471,537)
Customer deposits net	13,868
Net cash provided by operating activities	<u>533,186</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	<u>(48,217)</u>
Net cash used by noncapital financing activities	<u>(48,217)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(512,140)
Installment purchase agreement	-
Capital Contributions	485,782
Principal paid on bond maturities and note agreements	(130,566)
Interest and fees paid on bond maturities and notes agreements	(34,683)
Net cash used by capital and related financing activities	<u>(191,607)</u>
Cash flows from investing activities:	
Interest on investments	<u>11,266</u>
Net decrease in cash and cash equivalents	304,628
Cash and cash equivalents:	
Beginning of year, July 1	2,110,329
End of year, June 30	\$ <u><u>2,414,957</u></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, 2020**

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	Water and Sewer Fund
	<u>                    </u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ <u>(176,020)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	637,828
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(26,381)
Increase (decrease) in accounts payable and accrued liabilities	66,694
Increase (decrease) in net pension liability	1,882
Increase (decrease) in opeb liability	4,833
(Increase) decrease in deferred outflows of resources for pensions	12,904
Increase (decrease) in deferred inflows of resources for pensions	506
Increase (decrease) in compensated abs.	(2,928)
Increase(decrease) in deposits	<u>13,868</u>
Total adjustments	<u>709,206</u>
Net cash provided by operating activities	\$ <u><u>533,186</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, 2020**

**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 (the "Town") 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 (discrete presentation). 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. Issuance 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. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there 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 generally reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, 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, 2020, the Term Portfolio has a duration of .15 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 and considers all cash and investments to be cash and cash equivalents. 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 outlined in G.S. 136-41.1 through 136-41.4.

### Town of Warsaw Restricted Cash

Governmental Activities		
General Fund		
	Streets	\$ 71,407
	Reserve requirement	26,851
Total governmental activities		<u>\$ 98,258</u>
Business-type Activities		
Water and Sewer Fund		
	Customer Deposits	\$ 155,306
Total Business-type activities		<u>155,306</u>
Total Restricted Cash		<u>\$ 253,564</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 uncollectible 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 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 Lives</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 Lives</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 meets this criterion, pension deferrals for the 2020 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 2020 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 (LERS) and additions to/deductions from LERS' fiduciary net position have been determined on the same basis as they are reported by LERS. 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 LERS. 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.

B. Deficit Fund Balance or Net Position of Individual Funds

None.

C. Excess of Expenditures over Appropriations

None reported.

III. Detail Notes on All FundsA. Assets1. 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, 2020, the Town's deposits had a carrying amount of \$716,736 and a bank balance of \$733,404 all of which was covered by federal depository insurance. The ABC Board's deposits had a carrying amount of \$79,114 and a bank balance of \$124,663. All of the bank balance was covered by federal depository insurance.

2. Investments

At June 30, 2020, the Town of Warsaw had \$4,398,019 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	\$ 228,979	\$ 136,123	\$ -	\$ -	\$ 365,102
Non Major Funds	-	-	-	-	-
EDRL Fund	363,730	-	-	-	363,730
Total Governmental Activities	<u>\$ 592,709</u>	<u>\$ 136,123</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 728,832</u>
Business-Type Activities:					
Water and Sewer	\$ 270,158	\$ -	\$ -	\$ -	\$ 270,158
Total Business-Type Activities	<u>\$ 270,158</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,158</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, 2020, 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	-	(988,599)	65,727
<b>Capital assets being depreciated:</b>				
Buildings & Improvements	1,298,776	988,599	-	2,287,375
Equipment and Vehicles	1,450,419	164,021	(174,977)	1,439,463
Infrastructure	109,205	-	-	109,205
Total capital assets being depreciated	2,858,400	1,152,620	(174,977)	3,836,043
<b>Less accumulated depreciation for:</b>				
Buildings & Improvements	1,026,240	37,394	-	1,063,634
Equipment and Vehicles	1,236,571	92,846	(174,977)	1,154,440
Infrastructure	87,118	4,882	-	92,000
Total accumulated depreciation	2,349,929	\$ 135,122	\$ (174,977)	2,310,074
Total capital assets being depreciated, net	508,471			1,525,969
<b>Governmental activity capital assets, net</b>	<b>\$ 1,562,797</b>			<b>\$ 1,591,696</b>

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

General Government	\$ 22,055
Public Safety	42,510
Cultural & Recreation	19,541
Public Works	51,016
Total Depreciation Expense	<u>\$ 135,122</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	2,515,636	486,147	(3,001,783)	-
Total capital assets not being depreciated	2,548,854	486,147	(3,001,783)	33,218
<b>Capital assets being depreciated:</b>				
Plant and Distribution Systems	21,465,229	3,001,783	-	24,467,012
Equipment and Vehicles	389,256	25,993	-	415,249
Total capital assets being depreciated	21,854,485	3,027,776	-	24,882,261
<b>Less accumulated depreciation for:</b>				
Plant and Distribution Systems	8,082,126	611,675	-	8,693,801
Equipment and Vehicles	311,353	26,153	-	337,506
Total accumulated depreciation	8,393,479	\$ 637,828	\$ -	9,031,307
Total capital assets being depreciated, net	13,461,006			15,850,954
<b>Water &amp; Sewer Fund capital assets, net</b>	<b>\$ 16,009,860</b>			<b>\$ 15,884,172</b>

**Discretely Presented Component Unit:**

Activity for the ABC Board for the year ended June 30, 2020, was as follows:

	Cost	Accumulated Depreciation	Net Amount
Buildings	\$ 74,091	\$ 69,853	\$ 4,238
Other Improvements	13,228	6,848	6,380
Equipment and Furniture	55,471	50,414	5,057
Computer equipment	8,062	5,842	2,220
Total Depreciable Property	150,852	<u>\$ 132,957</u>	17,895
Land	<u>58,000</u>		<u>58,000</u>
Total	<u>\$ 208,852</u>		<u>\$ 75,895</u>

**B. Liabilities****1. Pension Plan Obligations****a. 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, 2020, was 9.7% of compensation for law enforcement officers and 9.12% 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 \$120,275 for the year ended June 30, 2020.

*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, 2020, the Town reported a liability of \$486,104 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 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, 2019 (measurement date), the Town's proportion was 0.0178%, which was a decrease of 0.0023% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$206,945. At June 30, 2020, 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	\$	83,233	\$	-
Change in assumptions		79,227		-
Net difference between projected and actual earnings on pension plan investments		11,856		-
Changes in proportion and differences between Town's contributions and proportionate share of contributions		-		39,396
Town's contributions subsequent to the measurement date		120,275		-
Total	\$	294,591	\$	39,396

\$120,275 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, 2021. 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>	
2021	72,654
2022	14,067
2023	38,626
2024	9,573
2025	-
Thereafter	-
	<u>\$ 134,920</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2018 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 return	7.00 percent, net of pension 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, 2018 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, 2020 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 2018 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)	\$ 1,111,809	\$ 486,104	\$ (33,983)

*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.

b. Law Enforcement Officers Special Separation Allowance1. *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 are covered by the Separation Allowance. At December 31, 2019, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	13
Total	<u>13</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, 2018 valuation. The total pension liability in the December 31, 2018 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	3.26%

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, 2020, the Town reported a total pension liability of \$250,470. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$22,640.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 21,842	\$ 30,224
Changes of assumptions and other inputs	14,419	9,488
Benefit payments and administrative expenses made subsequent to the measurement date	-	-
Total	<u>\$ 36,261</u>	<u>\$ 39,712</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:

<b>Year Ended June 30</b>	
2021	335
2022	335
2023	437
2024	(926)
2025	(3,632)
Thereafter	-
	<u>\$ (3,451)</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 3.26 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 (2.26 percent) or 1-percentage-point higher (4.26 percent) than the current rate:

	<b>1 % Decrease (2.26%)</b>	<b>Discount Rate (3.26%)</b>	<b>1% Increase (4.26%)</b>
Total pension liability	\$ 271,664	\$ 250,470	\$ 231,071

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

	<b>2020</b>
Beginning balance	\$ 256,967
Service Cost	12,951
Interest on the total pension liability	9,354
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(36,379)
Changes of assumptions or other inputs	7,577
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<u>\$ 250,470</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, 2018 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	\$ 206,945	\$ 22,640	\$ 229,585
Pension Liabilities	486,104	250,470	736,574
Proportionate share of the net pension liability	0.0178%	N/A	
Deferred of Outflows of Resources			
Differences between expected and actual experience	83,233	21,842	105,075
Changes of assumption	79,227	14,419	93,646
Net difference between projected and actual earnings on plan investments	11,856	-	11,856
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	120,275	-	120,275
Deferred of Inflows of Resources			
Difference between expected and actual experience	-	30,224	30,224
Changes of assumptions	-	9,488	9,488
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	39,396	-	39,396

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, 2020 were \$73,983 which consisted of \$45,517 from the Town and \$28,466 from the law enforcement officers and other employees.

d. Other Postemployment Benefits (OPEB)1. Healthcare Benefits

*Plan Description.* Under the terms of a Town resolution, the Town administers a single employer defined benefit Healthcare Plan (the HCB Plan). The plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty- five years of creditable service with the Town, have not reached age 62 and are not eligible to receive Medicare benefits. The Town pays the full cost of coverage for employee's benefits through private insurers and employees have the option of purchasing dependent coverage at the Town's group rates. Employees who retire with a minimum of 25 years of creditable service are eligible for postemployment coverage. Retirees who qualify for coverage receive the same benefits as active employees. Coverage for all retirees who are eligible for Medicare will be transferred to a Medicare Supplemental Plan after qualifying for Medicare. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at June 30, 2019 date of the latest actuarial valuation.

	<u>Employees:</u>
Retirees and dependents receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>30</u>
Total	<u><u>30</u></u>

*Funding Policy.* By Town resolution, the Town pays the full cost of the coverage for the healthcare benefits to qualified retirees. The Town has chosen to fund the healthcare benefits on a pay as you go basis. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due. In fiscal year ended, June 30, 2020, the Town was not required to make contributions in the fiscal year.

**Total OPEB Liability**

The Town's total OPEB liability of \$62,757 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

*Actuarial assumptions and other inputs.* The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.50 to 7.75 percent, including inflation
Discount rate	3.50 percent
Healthcare cost trend rates	7.00% For 2019 decreasing to an ultimate rate of 4.50% by 2026

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date.

**Change in the Total OPEB Liability**

	<b>Total OPEB Liability</b>
<b>Balance at July 1, 2019</b>	
<b>Changes for the year</b>	\$ 40,790
Service cost	1,623
Interest	1,587
Changes of benefit terms	-
Differences between expected and actual experience	17,651
Changes in assumptions or other inputs	1,106
Benefit payments	-
<b>Net changes</b>	<u>21,967</u>
<b>Balance at June 30, 2020</b>	<u><u>\$ 62,757</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.89 % to 3.50%.

Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50 percent) or 1-percentage-point higher (4.50 percent) than the current discount rate:

	<b>1% Decrease (2.50%)</b>	<b>Discount Rate (3.50%)</b>	<b>1% Increase (4.50%)</b>
Total OPEB liability	\$ 66,545	\$ 62,757	\$ 59,289

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 58,615	\$ 62,757	\$ 67,569

#### OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the Town recognized OPEB expense of \$4,804. Contributions made after the measurement date of the net pension/OPEB liability/collective net pension/OPEB liability but before the end of the employer's or governmental nonemployer contributing entity's reporting period will be recognized as a reduction of the net pension/OPEB liability or collective net pension/OPEB liability in the subsequent fiscal period rather than in the current fiscal period. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 15,909	\$ -
Changes of assumptions	997	2,093
Benefit payments and administrative costs made subsequent to the measurement date	-	-
	<u>\$ 16,906</u>	<u>\$ 2,093</u>

\$00 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2021	\$ 1,594
2022	1,594
2023	1,594
2024	1,594
2025	1,594
Thereafter	6,843
	<u>\$ 14,813</u>

## 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. Deferred Outflows and Inflows of Resources

Deferred outflows of resources reported on the Statement of Net Position is comprised of the following:

Source	Amount
Contributions to pension plan in current fiscal year	\$ 120,275
Benefit payments and administrative expenses for LEOSA made subsequent to measurement date	-
Benefit payments and administrative expenses for OPEB made subsequent to measurement date	-
Differences between expected and actual experience	120,984
Changes of assumptions	94,643
Net difference between projected and actual	11,856
Changes in proportion and differences between employer contributions and proportionate share of contributions	-
Total	<u><u>\$ 347,758</u></u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes receivable (General Fund) less penalties	\$ -	109,237
Prepaid taxes (General Fund)	-	-
Differences between expected and actual experience	30,224	-
Changes in assumptions	11,581	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	39,396	-
Total	<u><u>\$ 81,201</u></u>	<u><u>\$ 109,237</u></u>



#### 4. 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 does 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.

#### 5. Claims, Judgments, and Contingent Liabilities

At June 30, 2020, 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.

6. Long Term Obligationsa. Installment Purchases*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, 2020 was \$13,388 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, 2020 was \$499,125 for the business-type activities.

The future minimum payments of the direct placement installment purchases as of June 30, 2020 are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2021	13,388	745	45,375	-
2022	-	-	45,375	-
2023	-	-	45,375	-
2024	-	-	45,375	-
2025	-	-	45,375	-
2026-2030	-	-	226,875	-
2031-2032	-	-	45,375	-
	<u>\$ 13,388</u>	<u>\$ 745</u>	<u>\$ 499,125</u>	<u>\$ -</u>

Bonds payable at June 30, 2020 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 2.375% 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, 2020 was \$1,273,000.

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

Business-Type Activities		
Year Ending June 30	Principal	Interest
2021	26,000	30,234
2022	26,000	29,616
2023	27,000	28,999
2024	28,000	28,358
2025	28,000	27,693
2026-2030	152,000	128,085
2031-2035	171,000	109,156
2036-2040	193,000	87,781
2041-2045	215,000	63,888
2046-2050	244,000	37,027
2050-2054	163,000	7,814
Total	<u>\$ 1,273,000</u>	<u>\$ 578,651</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, 2020, is as follows:

Operating revenues	\$ 1,610,024
Operating expenses*	<u>(1,148,216)</u>
Operating income	461,808
Nonoperating revenues (expenses)**	<u>11,266</u>
Income available for debt service	473,074
Debt service, principal and interest paid (Revenue bond only)	\$ 50,000
Debt service coverage ratio	946%

\* This does not include the depreciation expense of \$637,828.

\*\* This does not include revenue bond interest paid of \$34,683.

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, 2020 was \$100,000.

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

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2021	\$ 50,000	\$ 2,021
2022	50,000	1,285
Total	<u>\$ 100,000</u>	<u>\$ 3,306</u>

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, 2020 was \$10,297 for the business-type activities.

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2021	\$ 10,297	\$ 567
Total	<u>\$ 10,297</u>	<u>\$ 567</u>

e. Changes in Long-Term Liabilities

	Balance 1-Jul-19	Increases	Decreases	Balance 30-Jun-20	Current Portion
<b>Governmental activities:</b>					
Direct Placement Installment purchases	\$ 95,074	\$ -	\$ (81,686)	\$ 13,388	\$ 13,388
Net pension liability (LGERS)	372,491	6,670	-	379,161	-
Total pension liability (LEO)	256,967	-	(6,497)	250,470	-
Total OPEB liability	31,816	17,134	-	48,950	-
Compensated absences	62,792	35,827	(27,717)	70,902	35,827
Governmental activity long-term liabilities	<u>\$ 819,140</u>	<u>\$ 59,631</u>	<u>\$ (115,900)</u>	<u>\$ 762,871</u>	<u>\$ 49,215</u>
<b>Business-type activities:</b>					
Compensated absences	\$ 16,127	\$ -	\$ (2,928)	\$ 13,199	\$ 13,199
Revolving Loan	150,000	-	(50,000)	100,000	50,000
Net pension liability (LGERS)	105,061	1,882	-	106,943	-
Total OPEB liability	8,974	4,833	-	13,807	-
USDA Water & Sewer	1,298,000	-	(25,000)	1,273,000	26,000
Direct Placement Installment purchases	20,488	-	(10,191)	10,297	10,297
Note payable	544,500	-	(45,375)	499,125	45,375
Business-type activity long-term liabilities	<u>\$ 2,143,150</u>	<u>\$ 6,715</u>	<u>\$ (133,494)</u>	<u>\$ 2,016,371</u>	<u>\$ 144,871</u>

At June 30, 2020, the Town of Warsaw had a legal debt margin of \$18,815,747.

C. Interfund Balances and Activity

The composition of balances due to/from other funds as of June 30, 2020 is as follows:

Due to/from other funds on June 30, 2020, consist of the following:

<b>Fund</b>	<b>To</b>	<b>From</b>	<b>Purpose</b>
General Fund	\$ 63,235		To supplement cash flow
Water Fund		\$ 63,235	
General Fund	\$ 7		To supplement cash flow
Special Reveune Fund		\$ 7	

Transfers to/from other funds at June 30, 2020, consist of the following:

<b>Fund</b>	<b>To</b>	<b>From</b>	<b>Purpose</b>
General Fund	\$ 273,727		To close out the project
Recreastoin Capital Project Fund		\$ 273,727	
General Fund	\$ 48,217		To close out the project
Water Project Fund		\$ 48,217	

D. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 1,591,696	\$ 15,884,172
less: long term debt	13,388	1,882,422
Net investment in capital asset	<u>\$ 1,578,308</u>	<u>\$ 14,001,750</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>\$ 2,525,788</b>
<b>Less:</b>	
<b>Stabilization by State Statute</b>	292,221
<b>Streets - Powell Bill</b>	71,407
<b>Reserve requirement</b>	26,851
<b>Remaining Fund Balance</b>	<b>\$ 2,135,309</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.

VI. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in the fiscal year ending June 30, 2020. The implementation of the statement required the Town to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the OPEB during the measurement period (fiscal year ending December 31, 2019). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the governmental activities decreased \$33,649 and \$9,491 for the business-type activities.

REQUIRED  
SUPPLEMENTAL FINANCIAL DATA

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This section contains additional information required by generally accepted  
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

Schedule of Changes in the Net OPEB Liability and  
Related Ratios

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

**Local Government Employees' Retirement System**

	<b>2020</b>	<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) (%)	0.0178%	0.0201%	0.0222%	0.0239%	0.0237%	0.0215%	0.0204%
Town's proportion of the net pension liability (asset) (\$)	\$ 486,104	\$ 477,552	\$ 338,849	\$ 508,087	\$ 106,275	\$ (126,797)	\$ 245,898
Town's covered-employee payroll	\$ 1,242,297	\$ 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	39.13%	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%	99.07%	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 Seven Fiscal Years**

**Local Government Employees' Retirement System**

	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 120,275	\$ 101,705	\$ 96,034	\$ 98,302	\$ 91,160	\$ 93,528	\$ 84,684
Contributions in relation to the contractually required contribution	120,275	101,705	96,034	98,302	91,160	93,528	84,684
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 1,283,364	\$ 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	9.37%	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, 2020**

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 256,967	\$ 221,035	\$ 171,753	\$ 156,317
Service Cost	12,951	18,476	14,828	14,310
Interest on the total pension liability	9,354	6,985	6,630	5,581
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(36,379)	21,502	12,836	-
Changes of assumptions or other inputs	7,577	(11,031)	14,988	(4,455)
Benefit payments	-	-	-	-
Other changes	-	-	-	-
Ending balance of the total pension liability	<u>\$ 250,470</u>	<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, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 250,470	\$ 256,967	\$ 221,035	\$ 171,753
Covered payroll	539,809	600,099	607,571	569,500
Total pension liability as a percentage of covered payroll	46.40%	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

**Town of Warsaw, North Carolina**  
**Schedule of Changes in the Net OPEB Liability and Related Ratios**  
**Healthcare Benefits Plan**  
**For the Year Ended June 30, 2020\***

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>			
Service cost	\$ 1,623	\$ 1,672	\$ 1,799
Interest	1,587	1,380	1,131
	-	-	-
Differences between expected and actual experience	17,651	-	-
Changes of assumptions	1,106	(1,021)	(1,748)
Benefit payments	-	-	-
<b>Net change in total OPEB liability</b>	<u>21,967</u>	<u>2,031</u>	<u>1,182</u>
<b>Total OPEB liability - beginning</b>	<u>40,790</u>	<u>38,759</u>	<u>37,577</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 62,757</u></u>	<u><u>\$ 40,790</u></u>	<u><u>\$ 38,759</u></u>
Town's covered payroll	\$ 1,158,174	\$ 1,125,575	\$ 1,125,575
Town's OPEB liability as a percentage of its covered payroll	5.42%	3.62%	3.44%

\* Plan measurement date is the reporting date. Employer measurement date is one year prior to reporting date.

**Notes to Schedule**

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount

<u>Fiscal year</u>	<u>Rate</u>
2018	3.56%
2019	3.89%
2020	3.50%

## 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, 2020**

	2020		
	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Taxes	\$	\$ 1,276,027	\$
Penalties and interest		12,780	
Total	1,229,715	1,288,807	59,092
Unrestricted intergovernmental:			
Utilities sales tax		166,275	
Local option sales taxes		816,179	
Beer and wine tax		12,766	
Telecommunications tax		17,157	
Video programming		7,971	
Refunds		662	
Total	1,050,400	1,021,010	(29,390)
Restricted intergovernmental:			
Solid waste disposal tax		2,268	
Powell Bill allocation		89,045	
Total	91,100	91,313	213
Permits and fees:			
Garbage Fees		334,676	
Zoning Permits		1,900	
Business registration fees		200	
Recreation fees		70,977	
Miscellaneous		294	
Police fees		54,785	
Total	356,900	462,832	105,932

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

	2020		Variance
	Budget	Actual	Positive (Negative)
Sales and services:			
Concession and vending		10,632	
Rents		82,450	
Sales of materials		54,645	
Miscellaneous		36,787	
Total	177,600	184,514	6,914
Miscellaneous:			
Contributions		52,848	
Total	5,250	52,848	47,598
Investment earnings	23,000	39,770	16,770
 Total Revenues	 2,933,965	 3,141,094	 207,129
<b>Expenditures:</b>			
General government:			
Administration:			
Salaries & benefits		166,458	
Operating expense		122,303	
Capital Outlay		-	
Total	290,230	288,761	1,469
Total General Government	290,230	288,761	1,469
Environmental:			
Contracted Services		273,809	
Total	275,000	273,809	1,191
Public Works & Streets:			
Salaries & benefits		145,022	
Operating expense		203,191	
Capital Outlay		164,021	
Total	574,200	512,234	61,966

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

		2020		
				Variance
				Positive
		Budget	Actual	(Negative)
Public Safety:				
	Salaries & benefits		907,118	
	Operating expense		188,155	
	Contribution to VFD		132,600	
	Capital Outlay		-	
	Total	1,339,950	1,227,873	112,077
Recreation/Wellness:				
	Salaries & benefits		177,590	
	Operating expense		163,646	
	Capital Outlay		-	
	Total	342,520	341,236	1,284
Debt service:				
	Principal		81,686	
	Interest		8,680	
	Total	92,072	90,366	1,706
Special projects:				
	Library		2,386	
	Other		234,966	
	Total	256,668	237,352	19,316
	Total Expenditures	3,170,640	2,971,631	199,009
Revenues over (under) expenditures		(236,675)	169,463	406,138



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

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	2020		
	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):			
Proceeds from Install. Purchase	172,000	-	
Transfers from other funds	63,900	321,944	
Transfers to other funds	-	-	
Insurance Recovery	775	16,974	
Fund Balance Appropriated		-	
Total	<u>236,675</u>	<u>338,918</u>	<u>102,243</u>
Net change in			
Fund Balance	\$ <u>-</u>	508,381	\$ <u>508,381</u>
Fund balances:			
Beginning of year, July 1		<u>2,017,407</u>	
End of year, June 30		<u>\$ 2,525,788</u>	

## 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, 2020**

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental	\$ 434,032	\$ 1,396	\$ -	\$ 1,396	\$ (432,636)
Investment Earnings	-	529,949	46,681	576,630	576,630
Other Income	10,000	502,786	7,025	509,811	499,811
Total	<u>444,032</u>	<u>1,034,131</u>	<u>53,706</u>	<u>1,087,837</u>	<u>643,805</u>
Expenditures:					
Current:					
Economic and physical development:					
Development	200,000	53,363	-	53,363	146,637
Incentive grants	10,000	13,837	-	13,837	(3,837)
Total expenditures	<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>966,931</u>	53,706	<u>1,020,637</u>	<u>1,254,669</u>
Other financing sources:					
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>\$ 684,333</u>	53,706	<u>\$ 738,039</u>	<u>\$ 738,039</u>
Fund balances:					
Beginning of year, July 1			<u>684,333</u>		
End of year, June 30			<u>\$ 738,039</u>		

**Town of Warsaw, North Carolina**  
**Combining Balance Sheets**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2020**

	Recreation Capital Project	Totals
<b>Assets</b>		
Cash and Investments	\$ -	\$ -
Due other funds	-	-
Accounts Receivable	-	-
Total Assets	\$ <u>-</u>	\$ <u>-</u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities:</b>		
Due to other funds	\$ -	\$ -
Deferred revenue	-	-
Accounts payable	-	-
Total liabilities	<u>-</u>	<u>-</u>
<b>Fund Balances:</b>		
Restricted		
Stabilization by State Statute	-	-
Fund Balance - Undesignated	-	-
Total fund balances	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	\$ <u>-</u>	\$ <u>-</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, 2020**

	Recreation Capital Project	Totals
Revenues:		
Restricted Revenue	\$ -	\$ -
Local contributions	-	-
Investment Income	24	24
Miscellaneous	4,283	4,283
Total Revenues	<u>4,307</u>	<u>4,307</u>
Expenditures:		
Current:		
Economic and physical development:		
Recreation	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>
Revenues over expenditures	4,307	4,307
Other Financing Sources (Uses):		
Loan	-	-
Transfers In (Out)	<u>(273,727)</u>	<u>(273,727)</u>
Total other financing sources	<u>(273,727)</u>	<u>(273,727)</u>
Revenues over expenditures and other financing sources and (uses)	(269,420)	(269,420)
Fund balances:		
Beginning of year, July 1	269,420	269,420
End of year, June 30	<u>\$ -</u>	<u>\$ -</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, 2020**

	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	-	54	24	78	78
Miscellaneous	-	2,986	4,283	7,269	7,269
Contributions/Other	170,000	595,381	-	595,381	425,381
Total	<u>470,000</u>	<u>868,421</u>	<u>4,307</u>	<u>872,728</u>	<u>402,728</u>
<b>Expenditures:</b>					
Recreation					
Capital Outlay	578,000	988,599	-	988,599	(410,599)
Equipment	<u>305,983</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>305,983</u>
Total expenditures	<u>883,983</u>	<u>988,599</u>	<u>-</u>	<u>988,599</u>	<u>(104,616)</u>
Revenues over expenditures	-	(120,178)	4,307	(115,871)	298,112
<b>Other financing sources:</b>					
Loan	-	-	-	-	-
Transfers in (out)	<u>413,983</u>	<u>389,598</u>	<u>(273,727)</u>	<u>115,871</u>	<u>(298,112)</u>
Total other financing sources	<u>413,983</u>	<u>389,598</u>	<u>(273,727)</u>	<u>115,871</u>	<u>(298,112)</u>
Revenues and other sources over expenditures and other (uses)	\$ <u>-</u>	\$ <u>269,420</u>	(269,420)	\$ <u>-</u>	\$ <u>-</u>
<b>Fund balances:</b>					
Beginning of year, July 1			<u>269,420</u>		
End of year, June 30			<u>\$ -</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, 2020**

	2020		Variance
	Budget	Actual	Positive (Negative)
Revenues:			
Charges for services:			
Water sales:			
Residential &			
Commercial	\$	\$ 1,499,502	\$
Water and Sewer taps		4,900	
Other operating revenues		105,622	
Total	<u>1,366,965</u>	<u>1,610,024</u>	<u>243,059</u>
Nonoperating revenues:			
Interest earnings	-	11,266	
Total	<u>6,100</u>	<u>11,266</u>	<u>5,166</u>
Total Revenues	<u>1,373,065</u>	<u>1,621,290</u>	<u>248,225</u>
Expenditures:			
Water Operations:			
Salaries and benefits		471,537	
Contracted services		87,376	
Utilities		115,697	
Insurance		21,021	
Maintenance and repairs		220,689	
Other		41,902	
Automotive supplies		38,216	
Departmental supplies and materials		134,581	
Total	<u>1,181,065</u>	<u>1,131,019</u>	<u>50,046</u>
Debt service:			
Interest and fees		34,683	
Principal retirement		130,566	
Total debt service	<u>166,000</u>	<u>165,249</u>	<u>751</u>
Capital outlay:			
Water and sewer expansion		-	
Land acquisition		-	
Equipment		25,993	
Miscellaneous		-	
Total capital outlay	<u>26,000</u>	<u>25,993</u>	<u>7</u>
Total expenditures	<u>1,373,065</u>	<u>1,322,261</u>	<u>50,804</u>
Revenues over (under) expenditures	-	299,029	299,029



**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, 2020**

	2020		Variance
	Budget	Actual	Positive (Negative)
Other financing sources (uses):			
Transfers to general fund	-	(48,217)	
Fund balance appropriated	-	-	
Total other financing sources			
(uses):	-	(48,217)	(48,217)
Revenues and other sources over			
expenditures and other uses	\$ -	\$ 250,812	\$ 250,812

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

Revenues over expenditures	\$ 250,812
Reconciling items:	
Capital outlay	25,993
Change in accrued vacation pay	2,928
(Increase) decrease in net pension liability	(1,882)
(Increase) decrease in OPEB liability	(4,833)
Increase (decrease) in deferred outflows	
of resources for pensions	(12,904)
(Increase) decrease in deferred inflows	
of resources for pensions	(506)
Depreciation	(637,828)
Capital contributions	485,782
Principal retirement	130,566
Total reconciling items	(12,684)
Change in net position	\$ 238,128

**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, 2020**

	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	\$ 2,514,218	\$ 485,782	\$ 3,000,000	\$ -
Local Funds	50,000	50,000	-	50,000	-
Total	<u>3,050,000</u>	<u>2,564,218</u>	<u>485,782</u>	<u>3,050,000</u>	<u>-</u>
<b>Expenditures - Sewer Project:</b>					
Construction	2,751,000	2,195,109	454,271	2,649,380	101,620
Administration	299,000	320,617	31,786	352,403	(53,403)
Total	<u>3,050,000</u>	<u>2,515,726</u>	<u>486,057</u>	<u>3,001,783</u>	<u>48,217</u>
Revenues under expenditures	<u>-</u>	<u>48,492</u>	<u>(275)</u>	<u>48,217</u>	<u>48,217</u>
<b>Other financing sources (uses)</b>					
Loan-USDA	-	-	-	-	-
Transfer in(out)	-	-	(48,217)	(48,217)	(48,217)
Total	<u>-</u>	<u>-</u>	<u>(48,217)</u>	<u>(48,217)</u>	<u>(48,217)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 48,492</u>	<u>\$ (48,492)</u>	<u>\$ -</u>	<u>\$ -</u>

**Town of Warsaw, North Carolina**  
**General Fund**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2020**

<u>Fiscal Year</u>	<u>Uncollected Balance July 01, 2019</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2020</u>
2019-2020	\$	\$ 1,294,503	\$ (1,247,939)	\$ 46,564
2018-2019	36,893	-	(19,181)	17,712
2017-2018	13,035	-	(3,543)	9,492
2016-2017	7,098	-	(2,202)	4,896
2015-2016	13,562	-	(4,685)	8,877
2014-2015	10,593	-	(4,529)	6,064
2013-2014	8,010	-	(2,496)	5,514
2012-2013	6,467	-	(1,943)	4,524
2011-2012	5,764	-	(2,393)	3,371
2010-2011	2,911	-	(688)	2,223
2009-2010	2,041	-	(2,041)	-
	<u>\$ 106,374</u>	<u>\$ 1,294,503</u>	<u>\$ (1,291,640)</u>	<u>\$ 109,237</u>

Ad valorem taxes receivable - net \$ 109,237

Reconcilement with revenues:

Ad valorem taxes - General Fund	\$ 1,276,027
Reconciling items:	
Taxes written off	28,393
Interest collected	<u>(12,780)</u>
Total collections and credits	<u>\$ 1,291,640</u>

**Town of Warsaw, North Carolina**  
**Analysis of Current Tax Levy**  
**Town - Wide Levy**  
**For the Fiscal Year Ended June 30, 2020**

				Total Levy	
	Town - Wide			Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Property Valuation	Rate	Total Levy		
Original levy:					
Property taxed at current year's rate	\$ 235,364,182	\$ 0.55	\$ 1,294,503	\$ 1,208,404	\$ 86,099
Penalties	-		-	-	-
Total	<u>235,364,182</u>		<u>1,294,503</u>	<u>1,208,404</u>	<u>86,099</u>
 Total property valuation	 \$ <u>235,364,182</u>				
 Net levy			1,294,503	1,208,404	86,099
 Uncollected taxes at June 30, 2020			<u>(46,564)</u>	<u>(46,564)</u>	<u>-</u>
 Current year's taxes collected			<u>\$ 1,247,939</u>	<u>\$ 1,161,840</u>	<u>\$ 86,099</u>
 Current levy collection percentage			<u>96.40%</u>	<u>96.15%</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, 2020 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 January 27, 2021. 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 responses that we consider to be significant deficiencies, listed as 2020-001.

#### 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### 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 responses. 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*

*January 27, 2021*

**Town of Warsaw, North Carolina  
Schedule of Findings and Responses  
For the Fiscal Year Ended June 30, 2020**

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Section I. Summary of Auditors' Results

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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



**Town of Warsaw, North Carolina**  
**Schedule of Findings and Responses**  
**For the Fiscal Year Ended June 30, 2020**

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Section II. Financial Statement Findings

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**SIGNIFICANT DEFICIENCY**

2020-001                      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, 2019-001.

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  
Corrective Action Plan  
For the Fiscal Year Ended June 30, 2020**

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Section II - Financial Statement Findings

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2020 - 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