

TOWN OF WARSAW, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

TOWN OF WARSAW, VIRGINIA
Financial Report
For the Year ended June 30, 2014

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TOWN OF WARSAW, VIRGINIA

Town Council

Mark Milstead, Mayor

Paul G. Yackel, Vice Mayor

Ogle E. Forrest, Sr.

Wendi Nesbit

Randy Phelps

William L. Washington, IV

Ralf Self

Cheryl B. Pierson

Officials

John M. Slusser, Town Manager

Susan M. Pemberton, Town Treasurer

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Honorable Members of the Town Council
Town of Warsaw, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Warsaw, Virginia, as of and for the year ended June 30, 2014, 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.

Auditors' 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Town of Warsaw, Virginia, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof 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, budgetary comparison information, and schedule of pension funding progress on pages 4-9, 48, and 49 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Warsaw, Virginia's basic financial statements. The introductory section, supporting schedules, and statistical information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting 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. In our opinion, the supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2015, on our consideration of Town of Warsaw, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Warsaw, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
April 28, 2015

TOWN OF WARSAW, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

To the Citizens of Warsaw
Town of Warsaw, Virginia

As management of Town of Warsaw, Virginia, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014.

Financial Highlights

Government-wide Financial Statements

- On a government-wide basis for governmental activities, the assets and deferred outflows or resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,476,223 (net position). For business-type activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,872,232.

Fund Financial Statements

The Governmental Funds, on a current financial resources measurement focus, reported revenues and other financing sources in excess of expenditures and other financing uses by \$63,579 (Exhibit 5).

- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$2,603,469, an increase of \$63,579 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,830,839, or 176% of total general fund expenditures.
- Combined long-term obligations for the governmental funds increased \$19,724 during the current fiscal year.
- The Proprietary Funds, on an accrual basis, reported expenses in excess of revenues and other items by \$120,469 (Exhibit 8).
- As of the close of the current fiscal year, the Town's proprietary funds reported ending net position of \$9,872,232, a decrease of \$120,469.
- Combined long-term obligations in the proprietary funds decreased by \$158,376 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Overview of the Financial Statements (Continued)

Government-wide financial statements - The Government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the Town's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government administration, public safety, public works, and community development.

Fund financial statements - 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. Town of Warsaw, Virginia, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental Funds are used to account for essentially the same functions or services reported as governmental activities in the government-wide financial statements. Whereas the government-wide financial statements are prepared on the accrual basis of accounting, the governmental fund financial statements are prepared on the modified accrual basis of accounting. The focus of modified accrual reporting is on near-term inflows and outflows of financial resources and the balance of financial resources available at the end of the fiscal year. Since the governmental funds focus is narrower than that of the government-wide financial statements, reconciliation between the two methods is provided after the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance. The Town's only major fund is the General Fund.

Proprietary Funds - Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The Proprietary Funds utilize the accrual basis of accounting where the measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise Funds.

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.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information for budgetary comparison schedules and the schedule of pension funding progress and other supplementary information for supporting schedules and statistical information.

Overview of the Financial Statements (Continued)

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. In the case of the Town's governmental activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,476,223 at the close of the most recent fiscal year. This is an increase of \$242,023 over the prior year amount of \$3,234,200. Total net position of the business-type activities was \$9,872,232 at the close of the most recent fiscal year, a decrease of \$120,469 from the prior year amount of \$9,992,701.

Summary Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 2,647,870	\$ 2,568,330	\$ 1,505,359	\$ 1,814,315	\$ 4,153,229	\$ 4,382,645
Capital assets	914,818	723,162	11,568,433	11,726,992	12,483,251	12,450,154
Total assets	\$ 3,562,688	\$ 3,291,492	\$ 13,073,792	\$ 13,541,307	\$ 16,636,480	\$ 16,832,799
Current liabilities	\$ 23,018	\$ 13,569	\$ 79,914	\$ 268,584	\$ 102,932	\$ 282,153
Long-term liabilities	63,447	43,723	3,121,646	3,280,022	3,185,093	3,323,745
Total liabilities	\$ 86,465	\$ 57,292	\$ 3,201,560	\$ 3,548,606	\$ 3,288,025	\$ 3,605,898
Net position:						
Net investment in capital assets	\$ 877,488	\$ 702,101	\$ 8,504,198	\$ 8,614,592	\$ 9,381,686	\$ 9,316,693
Unrestricted	2,598,735	2,532,099	1,368,034	1,378,109	3,966,769	3,910,208
Total net position	\$ 3,476,223	\$ 3,234,200	\$ 9,872,232	\$ 9,992,701	\$ 13,348,455	\$ 13,226,901

At the end of the current fiscal year, the Town's investment in capital assets net of related debt used to acquire those assets represents 70% of total net position. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Town's net position increased by \$121,554 during the current fiscal year.

Government-wide Financial Analysis: (Continued)

Governmental Activities - Governmental activities increased the Town's net position by \$242,023 and business-type activities decreased the Town's net position by \$120,469 for a total effect of a \$121,554 increase. Key elements of this increase are as follows:

Town of Warsaw, Virginia's Net Position Summary Statement of Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 73,992	76,615	\$ 1,021,323	\$ 837,981	\$ 1,095,315	\$ 914,596
Operating grants and contributions	54,124	37,364	-	-	54,124	37,364
Capital grants and contributions	-	229,603	1,094	-	1,094	229,603
General revenues:						
General property taxes	183,839	183,303	-	-	183,839	183,303
Local sales and use taxes	73,722	65,770	-	-	73,722	65,770
Bank stock taxes	106,777	106,990	-	-	106,777	106,990
Business licenses	83,922	83,243	-	-	83,922	83,243
Restaurant food taxes	254,960	253,216	-	-	254,960	253,216
Other local taxes	156,942	156,399	-	-	156,942	156,399
Use of money and property	29,674	30,798	14,680	14,801	44,354	45,599
Miscellaneous	16,269	15,016	-	-	16,269	15,016
Grants and contributions not restricted to specific programs	43,219	17,365	-	-	43,219	17,365
Total revenues	\$ 1,077,440	\$ 1,255,682	\$ 1,037,097	\$ 852,782	\$ 2,114,537	\$ 2,108,464
Expenses:						
General government administration	\$ 321,216	\$ 330,946	\$ -	\$ -	\$ 321,216	\$ 330,946
Public safety	263,835	269,754	-	-	263,835	269,754
Public works	199,814	206,804	-	-	199,814	206,804
Community development	49,084	19,091	-	-	49,084	19,091
Interest on long-term debt	545	1,274	-	-	545	1,274
Water and Sewer	-	-	1,158,489	1,177,722	1,158,489	1,177,722
Total expenses	\$ 834,494	\$ 827,869	\$ 1,158,489	\$ 1,177,722	\$ 1,992,983	\$ 2,005,591
Increase (decrease) in net position before transfers	\$ 242,946	\$ 427,813	\$ (121,392)	\$ (324,940)	\$ 121,554	\$ 102,873
Transfers	(923)	(60,717)	923	60,717	-	-
Increase (decrease) in net position	\$ 242,023	\$ 367,096	\$ (120,469)	\$ (264,223)	\$ 121,554	\$ 102,873
Net position, beginning, as restated	3,234,200	2,867,104	9,992,701	10,256,924	13,226,901	13,124,028
Net position, ending	\$ 3,476,223	\$ 3,234,200	\$ 9,872,232	\$ 9,992,701	\$ 13,348,455	\$ 13,226,901

Government-wide Financial Analysis: (Continued)

- The increase in the governmental activities net position was caused by revenues outpacing expenses in the current year.
- The decrease in net position for business-type activities has improved this year due to the increase of revenues for charges for service.

For the most part, increases in expenditures closely paralleled inflation and growth in the demand for services.

Financial Analysis of the Town's Funds

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

Governmental Funds - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Town's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town's governmental funds reported fund balances of \$2,603,469, an increase of \$63,579 in comparison with the prior year. Approximately 70% of this total amount constitutes unassigned fund balance, which is available for spending at the Town's discretion. The remainder of fund balance is reflected as nonspendable or assigned as appropriate to indicate that it is not available for new spending.

Proprietary Funds - The focus of the Town's proprietary funds is upon determination of net income, financial position, and changes in financial position. Funds are accounted for in a manner similar to private business enterprises. The Town's proprietary funds consist of the Water Fund and the Sewer Fund. The proprietary funds net position decreased by \$120,469.

General Fund Budgetary Highlights

As there were no supplemental appropriations during the fiscal year, the original budget of \$865,886 did not change. Total expenditures budgeted for the Town can be briefly summarized as follows:

- \$306,700 for general government administration
- \$267,190 for public safety
- \$183,920 for public works
- \$27,400 for community development
- \$62,100 for capital projects
- \$18,576 for debt service

Capital Asset and Debt Administration

- Capital assets - The Town's investment in capital assets for its governmental activities as of June 30, 2014 amounts to \$914,818 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure and machinery, equipment and vehicles. Investment in capital assets for the Town's business-type activities amounts to \$11,568,433 as of June 30, 2014. This investment includes land, buildings, water systems, sewer systems, machinery and equipment, and construction in progress.

Additional information on the Town's capital assets can be found in Note 7 of this report.

Long-term obligations - At the end of the current fiscal year, the Town had total long-term obligations outstanding of \$63,447 for its governmental activities. This amount is comprised of compensated absences, which is backed by the full faith and credit of the Town, a RUS Loan for Trash Truck Debt Service and a USDA Rural Housing Loan for the purchase of police cars. Business-type activities debt is comprised of \$3,121,646 in bonds, notes and a loan secured solely by water and sewer revenues and compensated absences in the amount of \$17,020 backed by the full faith and credit of the Town.

The Town's total debt outstanding decreased by \$138,652 during the current fiscal year.

Additional information on the Town of Warsaw, Virginia's long-term obligations can be found in Note 9 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Richmond County, where the Town is located, is currently 8.1% percent, which is a decrease from a rate of 8.5% percent a year ago. This is higher than the Commonwealth's average unemployment rate of 5.5% percent and higher than the national average rate of 6.6% percent.
- Inflationary trends in the region compare a little higher to national indices.

All of these factors were considered in preparing the Town's budget for the 2015 fiscal year.

The fiscal year 2015 budget for the general fund amounted to \$977,165.

Requests for Information

This financial report is designed to provide a general overview of Town of Warsaw, Virginia's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Administrator, 78 Belleville Lane, Warsaw, Virginia 22572.

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position
At June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,517,940	\$ 1,374,033	\$ 3,891,973
Restricted assets:			
Customer deposits	-	31,140	31,140
Receivables:			
Taxes receivable	22,433	-	22,433
Accounts receivable	38,622	93,573	132,195
Due from other governmental units	63,520	-	63,520
Inventories	-	3,638	3,638
Prepaid items	5,355	2,975	8,330
Capital assets (net of accumulated depreciation):			
Land	365,232	397,200	762,432
Buildings, improvements and system	366,886	10,788,819	11,155,705
Machinery, equipment and vehicles	146,040	72,805	218,845
Infrastructure	36,660	-	36,660
Construction in progress	-	309,609	309,609
Total assets	\$ 3,562,688	\$ 13,073,792	\$ 16,636,480
LIABILITIES			
Accounts payable	\$ 22,329	\$ 14,393	\$ 36,722
Accrued liabilities	689	-	689
Customer deposits	-	31,140	31,140
Accrued interest payable	-	34,381	34,381
Long-term liabilities:			
Due within one year	11,954	523,788	535,742
Due in more than one year	51,493	2,597,858	2,649,351
Total liabilities	\$ 86,465	\$ 3,201,560	\$ 3,288,025
NET POSITION			
Net investment in capital assets	\$ 877,488	\$ 8,504,198	\$ 9,381,686
Unrestricted	2,598,735	1,368,034	3,966,769
Total net position	\$ 3,476,223	\$ 9,872,232	\$ 13,348,455

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

Statement of Activities

For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 321,216	\$ -	\$ -	\$ -
Public safety	263,835	26,754	54,124	-
Public works	199,814	47,238	-	-
Community development	49,084	-	-	-
Interest on long-term debt	545	-	-	-
Total governmental activities	<u>\$ 834,494</u>	<u>\$ 73,992</u>	<u>\$ 54,124</u>	<u>\$ -</u>
Business-type activities:				
Water	\$ 200,669	\$ 270,302	\$ -	\$ -
Sewer	957,820	751,021	-	1,094
Total business-type activities	<u>\$ 1,158,489</u>	<u>\$ 1,021,323</u>	<u>\$ -</u>	<u>\$ 1,094</u>
Total primary government	<u>\$ 1,992,983</u>	<u>\$ 1,095,315</u>	<u>\$ 54,124</u>	<u>\$ 1,094</u>

General revenues:

General property taxes

Local sales and use taxes

Bank stock taxes

Business licenses

Restaurant food taxes

Other local taxes

Unrestricted revenues from use of money and property

Miscellaneous

Grants and contributions not restricted to specific programs

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as restated

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (321,216)		\$ (321,216)
(182,957)		(182,957)
(152,576)		(152,576)
(49,084)		(49,084)
(545)		(545)
\$ <u>(706,378)</u>		\$ <u>(706,378)</u>
	\$ 69,633	\$ 69,633
	<u>(205,705)</u>	<u>(205,705)</u>
	\$ <u>(136,072)</u>	\$ <u>(136,072)</u>
\$ <u>(706,378)</u>	\$ <u>(136,072)</u>	\$ <u>(842,450)</u>
\$ 183,839	\$ -	\$ 183,839
73,722	-	73,722
106,777	-	106,777
83,922	-	83,922
254,960	-	254,960
156,942	-	156,942
29,674	14,680	44,354
16,269	-	16,269
43,219	-	43,219
(923)	923	-
\$ <u>948,401</u>	\$ <u>15,603</u>	\$ <u>964,004</u>
\$ <u>242,023</u>	\$ <u>(120,469)</u>	\$ <u>121,554</u>
3,234,200	9,992,701	13,226,901
\$ <u>3,476,223</u>	\$ <u>9,872,232</u>	\$ <u>13,348,455</u>

Fund Financial Statements

Balance Sheet
General Fund
At June 30, 2014

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 2,517,940
Receivables (net of allowance for uncollectibles):	
Taxes receivable	22,433
Accounts receivable	38,622
Due from other governmental units	63,520
Prepaid items	5,355
Total assets	\$ <u>2,647,870</u>
LIABILITIES	
Accounts payable	\$ 22,329
Accrued liabilities	689
Total liabilities	\$ <u>23,018</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ <u>21,383</u>
FUND BALANCE	
Nonspendable:	
Prepaid items	\$ 5,355
Assigned:	
Capital projects	767,275
Unassigned	1,830,839
Total fund balance	\$ <u>2,603,469</u>
Total liabilities, deferred inflows of resources and fund balance	\$ <u>2,647,870</u>

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

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
At June 30, 2014

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Total fund balances per Exhibit 3 - Balance Sheet - General Fund	\$ 2,603,469
--	--------------

Capital assets used in governmental activities are not financial resources
and, therefore are not reported in the funds. Those assets, net of
accumulated depreciation, consist of:

Land	\$ 365,232	
Buildings and improvements	366,886	
Machinery, equipment and vehicles	146,040	
Infrastructure	<u>36,660</u>	914,818

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in the fund balance.	21,383
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Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(63,447)
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Net position of governmental activities	\$ <u><u>3,476,223</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balance
 General Fund
 For the Year Ended June 30, 2014

	<u>General</u>
REVENUES	
General property taxes	\$ 177,327
Other local taxes	676,323
Permits, privilege fees, and regulatory licenses	5,125
Fines and forfeitures	21,629
Revenue from the use of money and property	29,674
Charges for services	47,238
Miscellaneous	16,269
Intergovernmental revenues:	
Commonwealth	78,413
Federal	18,930
Total revenues	<u>\$ 1,070,928</u>
EXPENDITURES	
Current:	
General government administration	\$ 291,937
Public safety	237,608
Public works	168,756
Community development	49,084
Capital projects	274,765
Debt service:	
Principal retirement	18,031
Interest and other fiscal charges	545
Total expenditures	<u>\$ 1,040,726</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 30,202</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	\$ (923)
Issuance of rural development loan	34,300
Total other financing sources (uses)	<u>\$ 33,377</u>
Net change in fund balance	\$ 63,579
Fund balance - beginning	2,539,890
Fund balance - ending	<u><u>\$ 2,603,469</u></u>

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

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds	\$	63,579
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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.

Capital outlays	\$	274,765	
Depreciation		<u>(83,109)</u>	191,656

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. Details of this item consist of the change in unavailable taxes.	6,512
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The issuance of long-term debt (e.g. bonds, leases) 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, however, has any effect on net position. Also, governmental funds report the effect of 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.

Repayment of note payable	\$	18,031	
Issuance of rural development loan		<u>(34,300)</u>	(16,269)

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. This amount is the net effect of the compensated absences in the current year.	<u>(3,455)</u>
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Change in net position of governmental activities	\$	<u><u>242,023</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Position
 Proprietary Funds
 At June 30, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 648,591	\$ 725,442	\$ 1,374,033
Restricted assets:			
Customer deposits	31,140	-	31,140
Accounts receivable	25,929	67,644	93,573
Inventories	3,638	-	3,638
Prepaid items	714	2,261	2,975
Total current assets	\$ 710,012	\$ 795,347	\$ 1,505,359
Noncurrent assets:			
Capital assets:			
Land	\$ 9,500	\$ 387,700	\$ 397,200
Buildings and system	810,252	14,469,347	15,279,599
Machinery and equipment	137,683	164,451	302,134
Accumulated depreciation	(809,215)	(3,910,894)	(4,720,109)
Construction in progress	309,609	-	309,609
Total capital assets	\$ 457,829	\$ 11,110,604	\$ 11,568,433
Total noncurrent assets	\$ 457,829	\$ 11,110,604	\$ 11,568,433
Total assets	\$ 1,167,841	\$ 11,905,951	\$ 13,073,792
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 6,368	\$ 8,025	\$ 14,393
Customer deposits	31,140	-	31,140
Accrued interest payable	-	34,381	34,381
Compensated absences - current portion	272	1,430	1,702
Bonds and other obligations - current portion	350,000	172,086	522,086
Total current liabilities	\$ 387,780	\$ 215,922	\$ 603,702
Noncurrent liabilities:			
Bonds and other obligations	\$ -	\$ 2,582,540	\$ 2,582,540
Compensated absences	2,444	12,874	15,318
Total noncurrent liabilities	\$ 2,444	\$ 2,595,414	\$ 2,597,858
Total liabilities	\$ 390,224	\$ 2,811,336	\$ 3,201,560
NET POSITION			
Net investment in capital assets	\$ 148,220	\$ 8,355,978	\$ 8,504,198
Unrestricted	629,397	738,637	1,368,034
Total net position	\$ 777,617	\$ 9,094,615	\$ 9,872,232

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

Statement of Revenues, Expenses, and Changes in Net Position
 Proprietary Funds
 For the Year Ended June 30, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for services:			
Water revenues	\$ 240,902	\$ -	\$ 240,902
Sewer revenues	-	713,866	713,866
Tap fees	29,400	37,100	66,500
Other revenues	-	55	55
Total operating revenues	<u>\$ 270,302</u>	<u>\$ 751,021</u>	<u>\$ 1,021,323</u>
OPERATING EXPENSES			
Salaries	\$ 49,168	\$ 149,534	\$ 198,702
Payroll taxes	4,023	12,494	16,517
Employee benefits	13,833	42,495	56,328
Telephone	1,139	3,948	5,087
Electricity	21,130	70,008	91,138
Well and plant maintenance	31,758	7,437	39,195
Equipment operations and maintenance	2,679	19,640	22,319
Office supplies	2,832	3,552	6,384
Water testing	2,593	-	2,593
Water permits	2,923	-	2,923
Waste water permits	-	2,596	2,596
Automotive operations and maintenance	4,949	9,129	14,078
Audit services	2,200	2,300	4,500
Engineering Services	565	-	565
Legal services	-	200	200
Uniforms	1,379	2,468	3,847
Meter connections	1,415	-	1,415
Chlorination	5,695	13,618	19,313
Repair lines	2,826	2,987	5,813
Insurance	6,402	17,903	24,305
Miscellaneous	2,695	15,297	17,992
Sludge removal	-	12,941	12,941
Advertising	-	165	165
Propane	-	5,363	5,363
Contracted lab testing	-	24,830	24,830
Depreciation	26,760	400,013	426,773
Total operating expenses	<u>\$ 186,964</u>	<u>\$ 818,918</u>	<u>\$ 1,005,882</u>
Operating income (loss)	<u>\$ 83,338</u>	<u>\$ (67,897)</u>	<u>\$ 15,441</u>
NONOPERATING REVENUES (EXPENSES)			
State grant revenue	\$ -	\$ 1,094	\$ 1,094
Interest income	4,022	10,658	14,680
Interest expense	(13,705)	(138,902)	(152,607)
Total nonoperating revenues (expenses)	<u>\$ (9,683)</u>	<u>\$ (127,150)</u>	<u>\$ (136,833)</u>
Income (loss) before transfers	<u>\$ 73,655</u>	<u>\$ (195,047)</u>	<u>\$ (121,392)</u>
Transfers:			
Transfers in	\$ 12,019	\$ -	\$ 12,019
Transfers out	-	(11,096)	(11,096)
Total transfers	<u>\$ 12,019</u>	<u>\$ (11,096)</u>	<u>\$ 923</u>
Change in net position	<u>\$ 85,674</u>	<u>\$ (206,143)</u>	<u>\$ (120,469)</u>
Total net position - beginning	691,943	9,300,758	9,992,701
Total net position - ending	<u>\$ 777,617</u>	<u>\$ 9,094,615</u>	<u>\$ 9,872,232</u>

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

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 267,517	\$ 740,223	\$ 1,007,740
Payments to suppliers	(92,187)	(214,515)	(306,702)
Payments to and for employees	(66,470)	(205,679)	(272,149)
Net cash provided by (used for) operating activities	<u>\$ 108,860</u>	<u>\$ 320,029</u>	<u>\$ 428,889</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	\$ -	\$ (11,096)	\$ (11,096)
Transfers from other funds	12,019	-	12,019
Government grants	-	1,094	1,094
Net cash provided by (used for) noncapital financing activities	<u>\$ 12,019</u>	<u>\$ (10,002)</u>	<u>\$ 2,017</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant and equipment	\$ (237,758)	\$ (30,456)	\$ (268,214)
Principal payments on bonds	-	(2,778,774)	(2,778,774)
Proceeds from indebtedness	-	2,421,000	2,421,000
Interest payments	(13,705)	(127,073)	(140,778)
Net cash provided by (used for) capital and related financing activities	<u>\$ (251,463)</u>	<u>\$ (515,303)</u>	<u>\$ (766,766)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	\$ 4,022	\$ 10,658	\$ 14,680
Net cash provided by (used for) investing activities	<u>\$ 4,022</u>	<u>\$ 10,658</u>	<u>\$ 14,680</u>
Net increase (decrease) in cash and cash equivalents	\$ (126,562)	\$ (194,618)	\$ (321,180)
Cash and cash equivalents - beginning - including restricted	806,293	920,060	1,726,353
Cash and cash equivalents - ending - including restricted	<u>\$ 679,731</u>	<u>\$ 725,442</u>	<u>\$ 1,405,173</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 83,338	\$ (67,897)	\$ 15,441
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	26,760	400,013	426,773
(Increase) decrease in accounts receivable	(5,879)	(6,088)	(11,967)
(Increase) decrease in inventories	(82)	-	(82)
(Increase) decrease in prepaid items	(42)	(133)	(175)
Increase (decrease) in accounts payable	1,117	(4,710)	(3,593)
Increase (decrease) in customer deposits	3,094	-	3,094
Increase (decrease) in compensated absences	554	(1,156)	(602)
Total adjustments	<u>\$ 25,522</u>	<u>\$ 387,926</u>	<u>\$ 413,448</u>
Net cash provided by (used for) operating activities	<u>\$ 108,860</u>	<u>\$ 320,029</u>	<u>\$ 428,889</u>

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

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements At June 30, 2014

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile

Town of Warsaw, located in Richmond County, Virginia, was incorporated in 1948. The Town has a population of 1,321 and a land area of 2.96 square miles.

The Town is governed under the Council-Manager form of government. The Town government, with approximately 15 full-time employees, engages in a wide range of municipal services including: police protection, refuse collection, recycling, street and sidewalk maintenance, street lights, zoning enforcement, planning and community development, and Town beautification. Judicial administration, educational, fire, library, health and welfare services, and recreational facilities and programs are provided by Richmond County.

The financial statements of Town of Warsaw, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the Town's accounting policies are described below.

A. Financial Reporting Entity

Management's Discussion and Analysis: GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A). This analysis is similar to the analysis that the private sector provides in their annual reports.

Government-wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the Town's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Position: The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

A. Financial Reporting Entity (continued)

Statement of Activities: The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expenses of individual functions are compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Fund Financial Statements: Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons. The budgetary comparison schedules present the government's original budget to the comparison of final budget and actual results for its major funds.

Accounting principles generally accepted in the United States require financial statements to present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The Town has no component units that meet the requirements for blending. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. The Town does not have any discretely presented component units.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category) and the component units, if applicable. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Internal service charges, if applicable, are eliminated and the net income or loss from internal service activities are allocated to the various functional expense categories based on the internal charges to each function.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

Proprietary fund operating revenues consist of charges for services and related revenues. Nonoperating revenues consist of contributions, grants, investment earnings and other revenues not directly derived from the providing of services.

The following is a brief description of the specific funds used by the Town in FY 2014.

1. *Governmental Funds*—Governmental Funds account for the expendable financial resources, other than those accounted for in Proprietary and Fiduciary Funds. The Governmental Funds utilize the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. Governmental funds consist of the general fund:

General Fund - The General Fund accounts for and reports all revenues and expenditures of the Town which are not accounted for and reported in the other funds. Revenues are primarily derived from general property taxes, other local taxes, licenses and permits, and revenues from other governmental units. The General Fund is considered a major fund for reporting purposes.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

B. Government-wide and Fund Financial Statements (Continued)

2. *Proprietary Funds* - Proprietary Funds account for operations that are financed in a manner similar to those found in private business enterprises. The Proprietary Funds utilize the accrual basis of accounting where the measurement focus is upon determination of net income, financial position, and cash flows. Proprietary Funds consist of enterprise funds.

Enterprise Funds - Enterprise Funds account for operations of the Town's water and sewer funds. Revenues are primarily derived from user charges.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current position.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

1. *Governmental Funds*—Governmental funds utilize the modified accrual basis of accounting under which revenues and related assets are recorded when measurable and available to finance operations during the year. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts, except that property taxes not collected within 60 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the State or utility and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the State or utility, which is generally in the month preceding receipt by the Town. Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of State and other grants for the purpose of funding specific expenditures, are recognized when measurable and available or at the time of the specific expenditure. Revenues from general purpose grants, such as entitlement programs, are recognized in the period to which the grant applies.

Expenditures, other than interest on long-term debt, are recorded as the related fund liabilities are incurred. Principal and interest on long-term debt are recognized when due except for amounts due on July 1, which are accrued.

2. *Proprietary Funds*—The accrual basis of accounting is used for the Enterprise Funds. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

D. Budgets and Budgetary Accounting

The Town Council annually adopts budgets for the general, water and sewer funds.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In April of each year, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. At least one public hearing is conducted at the Town Hall to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an appropriation ordinance. The Town Council may approve supplemental appropriations.
4. The legal level of control is at the function level within an individual fund. The Town Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year for the General, Water and Sewer Funds.
6. The budgets for the General, Water and Sewer Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. A review of the presented budget comparisons herein will disclose how accurately the governing body was actually able to forecast the revenues and expenditures of the Town.
8. Appropriations lapse on June 30, unless carried forward by a resolution of Town Council.
9. Budgetary amounts as presented in the financial statements reflect budget revisions through June 30, 2014.
10. There were no additional appropriations that would have a material effect on the financial statements at June 30, 2014.

E. Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Local Government Investment Pool.

Investments for the Town are reported at fair value.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

F. Inventory and Prepaid Items

Inventory consists of expendable supplies held for consumption. Inventory is valued at cost on a first-in, first-out basis.

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

G. Restricted Assets

The Water Fund has restricted funds related to deposits held for others as of year end.

The Town also has internally restricted funds invested in certificates of deposit. These funds are designated for certain capital projects and/or subsequent expenditures.

H. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds of the Town, and as assets in the government-wide financial statements to the extent the Town's capitalization threshold of \$2,500 is met. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest attributable to capitalized assets as of June 30, 2014. Depreciation is recorded on capital assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings, improvements and systems	15-40 years
Machinery, equipment and vehicles	5-10 years
Infrastructure	25 years

I. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes is insignificant at June 30, 2014.

J. Compensated Absences

Vested vacation pay, sick pay and other related employee benefit amounts are accrued when earned in all funds. The current amount of leave liability has been estimated at 10%. The balance of leave liability has been reported as a long-term liability.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

K. Retirement Plan

Retirement plan contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 30-year period. The Town's policy is to fund pension cost as it accrues.

L. 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town does not have any deferred outflows of resources as of June 30, 2014.

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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

N. Long-term Obligations

The Town reports long-term obligations at face value, which is believed to be approximate fair value. Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate fund.

O. Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

P. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Q. Fund Equity

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 2—DEPOSITS AND INVESTMENTS:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP). The Town had no investments at June 30, 2014.

NOTE 3—PROPERTY TAXES:

Real and personal property taxes are levied on July 1 at a rate enacted by the Town Council on the assessed value of property as determined by the Commissioner of Revenue of Richmond County. Neither the Town Charter nor the State of Virginia impose a limitation on the tax rate. The Town’s tax rates for fiscal year 2014 were \$.10 and \$.60 per \$100 of real estate and personal property assessed valuation, respectively.

Taxes are due in annual installments on December 5 of each year. A penalty of 10 percent is added to each delinquent installment. No discounts are allowed and interest at 8 percent per annum is also assessed on delinquent installments.

NOTE 4—ACCOUNTS RECEIVABLE:

Accounts and taxes receivable are detailed as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Property taxes	\$ 22,433	\$ -
Meals taxes	24,153	-
Lodging taxes	610	-
Other	13,859	93,573
Total	<u>\$ 61,055</u>	<u>\$ 93,573</u>

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 5—DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governments are detailed as follows:

	<u>Governmental Activities</u>
Commonwealth of Virginia:	
State sales tax	\$ 5,868
Communications sales tax	3,972
DMV grant	1,020
State fire insurance	1,000
Other	351
United States Department of Agriculture:	
Rural development funds	50,264
Richmond County:	
Miscellaneous	<u>1,045</u>
Total	<u>\$ 63,520</u>

NOTE 6—INTERFUND ACTIVITY:

Details of interfund activity as of June 30, 2014 are as follows:

Transfers To/From Other Funds:

Transfers to the Water Fund from the General Fund to supplement Water Fund operations.	\$ 923
Transfers to the Water Fund from the Sewer Fund to supplement Water Fund operations.	<u>11,096</u>
Total	<u>\$ 12,019</u>

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 7—CAPITAL ASSETS:

The following is a summary of changes in capital assets during the fiscal year:

	Balance July 1, 2013 As Restated	Increases	Decreases	Balance June 30, 2014
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 365,232	\$ -	\$ -	\$ 365,232
Total capital assets not being depreciated	\$ 365,232	\$ -	\$ -	\$ 365,232
Other capital assets:				
Buildings and improvements	\$ 356,569	\$ 180,599	\$ -	\$ 537,168
Infrastructure	58,195	5,426	-	63,621
Machinery, equipment and vehicles	736,163	88,740	-	824,903
Total other capital assets	\$ 1,150,927	\$ 274,765	\$ -	\$ 1,425,692
Accumulated depreciation:				
Buildings and improvements	\$ 157,030	\$ 13,252	\$ -	\$ 170,282
Infrastructure	24,495	2,466	-	26,961
Machinery, equipment and vehicles	611,472	67,391	-	678,863
Total accumulated depreciation	\$ 792,997	\$ 83,109	\$ -	\$ 876,106
Other capital assets, net	\$ 357,930	\$ 191,656	\$ -	\$ 549,586
Net capital assets	\$ 723,162	\$ 191,656	\$ -	\$ 914,818
Depreciation is allocated to:				
General government administration		\$ 28,265		
Public safety		24,834		
Public works		30,010		
Total		\$ 83,109		

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 7—CAPITAL ASSETS: (Continued)

Business-type Activities:	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 397,200	\$ -	\$ -	\$ 397,200
Construction in progress	88,541	221,068	-	309,609
Total capital assets not being depreciated	\$ 485,741	\$ 221,068	\$ -	\$ 706,809
Other capital assets:				
Buildings and systems	\$ 15,237,753	\$ 41,846	\$ -	\$ 15,279,599
Machinery and equipment	296,834	5,300	-	302,134
Total other capital assets	\$ 15,534,587	\$ 47,146	\$ -	\$ 15,581,733
Accumulated depreciation:				
Buildings and systems	\$ 4,083,254	\$ 407,526	\$ -	\$ 4,490,780
Machinery and equipment	210,082	19,247	-	229,329
Total accumulated depreciation	\$ 4,293,336	\$ 426,773	\$ -	\$ 4,720,109
Other capital assets, net	\$ 11,241,251	\$ (379,627)	\$ -	\$ 10,861,624
Net capital assets	\$ 11,726,992	\$ (158,559)	\$ -	\$ 11,568,433
Depreciation is allocated to:				
Water operations		\$ 26,760		
Sewer operations		400,013		
Total		\$ 426,773		

NOTE 8—COMPENSATED ABSENCES:

In accordance with GASB Statement 16, *Accounting for Compensated Absences*, the Town has accrued the liability arising from outstanding compensated absences. Town employees earn vacation and sick leave based upon length of service. The Town has outstanding accrued vacation pay totaling \$26,117 in the General Fund and \$17,020 in the Enterprise Funds.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 9—LONG-TERM OBLIGATIONS:

Annual requirements to amortize long-term obligations and related interest are as follows:

Balance June 30, 2014	Governmental Activities			
	Notes Payable		USDA Loan	
	Principal	Interest	Principal	Interest
2015	\$ 3,030	\$ 15	\$ 6,312	\$ 1,296
2016	-	-	6,577	1,275
2017	-	-	6,854	1,253
2018	-	-	7,142	1,231
2019	-	-	7,415	1,209
Totals	\$ <u>3,030</u>	\$ <u>15</u>	\$ <u>34,300</u>	\$ <u>6,264</u>

Balance June 30, 2014	Business-type Activities							
	GO Refunding Bond		Revenue Bond		VRA Loan Payable		Note Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 62,000	\$ 71,213	\$ 80,000	\$ 41,655	\$ 30,086	\$ 9,281	\$ 350,000	\$ 9,281
2016	143,500	68,191	-	-	31,148	8,219	-	-
2017	150,500	63,966	-	-	32,248	7,119	-	-
2018	147,500	59,676	-	-	33,387	5,980	-	-
2019	154,500	55,323	-	-	34,565	4,802	-	-
2020	160,500	50,778	-	-	35,786	3,581	-	-
2021	167,500	46,059	-	-	37,049	2,318	-	-
2022	174,500	41,140	-	-	38,357	1,009	-	-
2023	172,500	36,150	-	-	-	-	-	-
2024	179,500	31,071	-	-	-	-	-	-
2025	181,500	25,861	-	-	-	-	-	-
2026	73,500	22,072	-	-	-	-	-	-
2027	76,500	19,696	-	-	-	-	-	-
2028	78,500	17,232	-	-	-	-	-	-
2029	81,000	14,704	-	-	-	-	-	-
2030	83,500	12,088	-	-	-	-	-	-
2031	86,500	9,392	-	-	-	-	-	-
2032	89,500	6,600	-	-	-	-	-	-
2033	92,000	3,720	-	-	-	-	-	-
2034	47,000	752	-	-	-	-	-	-
Totals	\$ <u>2,402,000</u>	\$ <u>655,684</u>	\$ <u>80,000</u>	\$ <u>41,655</u>	\$ <u>272,626</u>	\$ <u>42,309</u>	\$ <u>350,000</u>	\$ <u>9,281</u>

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 9—LONG-TERM OBLIGATIONS: (Continued)

The following is a summary of governmental and business-type activity long-term obligations of the Town for the year ended June 30, 2014.

	Balance at July 1, 2013	Issuances/ Increases	Retirements/ Decreases	Balance at June 30, 2014
Long-term obligations payable from governmental activities:				
Note payable	\$ 21,061	\$ -	\$ 18,031	\$ 3,030
USDA loan	-	34,300	-	34,300
Compensated absences	22,662	5,721	2,266	26,117
Total from governmental activities	\$ 43,723	\$ 40,021	\$ 20,297	\$ 63,447
Long-term obligations payable from business-type activities:				
Virginia Resources Authority loan	\$ 301,686	\$ -	\$ 29,060	\$ 272,626
Note payable	350,000	-	-	350,000
Revenue bonds	2,810,714	-	2,730,714	80,000
General obligation refunding bonds	-	2,421,000	19,000	2,402,000
Compensated absences	17,622	1,160	1,762	17,020
Total from business-type activities	\$ 3,480,022	\$ 2,422,160	\$ 2,780,536	\$ 3,121,646
Total long-term obligations	\$ 3,523,745	\$ 2,462,181	\$ 2,800,833	\$ 3,185,093
Reconciliation to Exhibit 1:				
Long-term obligations:				
Due within one year			\$ 535,742	
Due in more than one year			2,649,351	
Total long-term obligations			\$ 3,185,093	

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 9—LONG-TERM OBLIGATIONS: (Continued)

Details of Long-term Indebtedness:

	<u>Total Amount Outstanding</u>	<u>Amount Due Within One Year</u>
<u>Governmental Activities:</u>		
Note payable due in monthly installments of \$1,547 including principal and interest through August 12, 2014, interest at 4.13%	\$ 3,030	\$ 3,030
USDA loan in monthly installments of \$634 including principal and interest through June 30, 2019, interest at 4.125%	\$ 34,300	\$ 6,312
Compensated absences	\$ 26,117	\$ 2,612
Total long-term obligations from governmental activities	<u>\$ 63,447</u>	<u>\$ 11,954</u>
<u>Business-type Activities:</u>		
Note payable principal due March 2015, interest only payable monthly at .50%.	\$ 350,000	\$ 350,000
Virginia Water Facilities Revolving Loan Payable: (VA Resources Authority) Loan due in semi-annual installments of \$19,683 including principal and interest through March 1, 2022, interest at 3.5%	272,626	30,086
Revenue Bonds		
\$1,650,000 Refinancing and Wastewater Bonds 2004B issued December 15, 2004, maturing in various semi-annual installments of \$2,516 to \$37,177 including principal and interest through August 1, 2024, interest payable at 2.5% - 4.375%	80,000	80,000
\$2,421,000 General Obligation Refunding Bond, Series 2013 issued September 18, 2013, maturing in various semi-annual installments through August 1, 2033, interest payable at 2.70% - 3.20%	<u>2,402,000</u>	<u>62,000</u>
Total loans and bonds payable	<u>\$ 3,104,626</u>	<u>\$ 522,086</u>
Compensated absences	<u>\$ 17,020</u>	<u>\$ 1,702</u>
Total long-term obligations from business-type activities	<u>\$ 3,121,646</u>	<u>\$ 523,788</u>

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 10—PENSION PLAN:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent Multiple-Employer Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees - Plan 1, Plan 2, and, Hybrid. Each plan has different eligibility and benefit structures as set out below:

VRS – PLAN 1

1. **Plan Overview** - VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
2. **Eligible Members** - Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
3. **Hybrid Opt-In Election** - VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

4. **Retirement Contributions** - Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

NOTE 10—PENSION PLAN:

A. Plan Description (continued)

VRS – PLAN 1 (CONTINUED)

5. **Creditable Service** - Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

6. **Vesting** - Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

7. **Calculating the Benefit** - The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

8. **Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

9. **Service Retirement Multiplier** - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

10. **Normal Retirement Age** - Age 65.

11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 10—PENSION PLAN:

A. Plan Description (continued)

VRS – PLAN 1 (CONTINUED)

13. Cost-of-Living Adjustment (COLA) in Retirement - The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

14. Eligibility - For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

15. Exceptions to COLA Effective Dates - The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

16. Disability Coverage - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

NOTE 10—PENSION PLAN:

A. Plan Description (continued)

VRS – PLAN 1 (CONTINUED)

- 17. Purchase of Prior Service** - Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS – PLAN 2

- 1. Plan Overview** - VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
- 2. Eligible Members** - Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
- 3. Hybrid Opt-In Election** - VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

- 4. Retirement Contributions** – Same as VRS Plan 1—Refer to Section 4.
- 5. Creditable Service** – Same as VRS Plan 1— Refer to Section 5.
- 6. Vesting** – Same as VRS Plan 1—Refer to Section 6.
- 7. Calculating the Benefit** – Same as VRS Plan 1—Refer to Section 7.
- 8. Average Final Compensation** - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 10—PENSION PLAN:

A. Plan Description (continued)

VRS – PLAN 2 (CONTINUED)

9. **Service Retirement Multiplier** - Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

10. **Normal Retirement Age** - Normal Social Security retirement age.

11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

13. **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

14. **Eligibility** - Same as VRS Plan 1—Refer to Section 14.

15. **Exceptions to COLA Effective Dates** - Same as VRS Plan 1—Refer to Section 15.

16. **Disability Coverage** - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. **Purchase of Prior Service** - Same as VRS Plan 1—Refer to Section 17.

NOTE 10—PENSION PLAN:

A. Plan Description (continued)

HYBRID RETIREMENT PLAN

1. **Plan Overview** - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)
 - The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.
 - The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
 - In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
2. **Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
 - State employees*
 - School division employees
 - Political subdivision employees*
 - Judges appointed or elected to an original term on or after January 1, 2014
 - Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014
3. ***Non-Eligible Members** - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
 - Members of the State Police Officers’ Retirement System (SPORS)
 - Members of the Virginia Law Officers’ Retirement System (VaLORS)
 - Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

NOTE 10—PENSION PLAN:

A. Plan Description (continued)

HYBRID RETIREMENT PLAN (CONTINUED)

3. *Non-Eligible Members (continued)

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

- 4. Retirement Contributions** - A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

5. Creditable Service

Defined Benefit Component - Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contribution Component - Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

6. Vesting

Defined Benefit Component - Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component - Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

NOTE 10—PENSION PLAN:

A. Plan Description (continued)

HYBRID RETIREMENT PLAN (CONTINUED)

6. Vesting (continued)

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

7. Calculating the Benefit

Defined Benefit Component - Same as VRS Plan 1—Refer to Section 7.

Defined Contribution Component - The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

8. Average Final Compensation - Same as VRS Plan 2—Refer to Section 8. It is used in the retirement formula for the defined benefit component of the plan.

9. Service Retirement Multiplier - The retirement multiplier is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

10. Normal Retirement Age

Defined Benefit Component - Same as VRS Plan 2—Refer to Section 10.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

NOTE 10—PENSION PLAN:

A. Plan Description (continued)

HYBRID RETIREMENT PLAN (CONTINUED)

11. Earliest Unreduced Retirement Eligibility

Defined Benefit Component - Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

12. Earliest Reduced Retirement Eligibility

Defined Benefit Component - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

13. Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component - Same as VRS Plan 2—Refer to Section 13.

Defined Contribution Component - Not Applicable.

14. Eligibility - Same as VRS Plan 1 and VRS Plan 2—Refer to Section 14.

15. Exceptions to COLA Effective Dates - Same as VRS Plan 1 and VRS Plan 2—Refer to Section 15

16. Disability Coverage - Eligible political subdivision and school division members (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 10—PENSION PLAN:

A. Plan Description (continued)

HYBRID RETIREMENT PLAN (CONTINUED)

17. Purchase of Prior Service

Defined Benefit Component - Same as VRS Plan 1 and VRS Plan 2—Refer to Section 17.

Defined Contribution Component - Not Applicable.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rates for the fiscal year ended 2014 was 13.48% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2014, the Town's annual pension cost of \$72,817 (does not include employee share of \$27,665 which was assumed by the Town for VRS) was equal to the Town's required and actual contributions.

Three-Year Trend Information for the Town:

Fiscal Year Ending	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 35,595	\$ 100%	-
June 30, 2013	74,950	100%	-
June 30, 2014	72,817	100%	-

(1) Employer portion only

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 10—PENSION PLAN: (Continued)

C. Annual Pension Cost (Continued)

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 76.96% funded. The actuarial accrued liability for benefits was \$2,036,392, and the actuarial value of assets was \$1,567,223, resulting in an unfunded actuarial accrued liability (UAAL) of \$469,169. The covered payroll (annual payroll of active employees covered by the plan) was \$556,011, and ratio of the UAAL to the covered payroll was 84.38%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

NOTE 11—CONTINGENT LIABILITIES:

At June 30, 2014 there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

Federal programs in which the Town participates were audited previously in accordance with provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 12—SURETY BONDS:

	<u>Amount</u>
Virginia Department of Risk Management-Surety Treasurer	\$ 100,000

NOTE 13—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 with other localities in a public entity risk pool for coverage of worker's compensation with Virginia Municipal league and public officials' liability with the Virginia Department of Risk Management. The Town pays an annual premium to the pools for its insurance through member premiums. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 14—CONSTRUCTION COMMITMENTS:

At June 30, 2014, the Town has outstanding construction contracts and commitments in the amount of \$6,658.

NOTE 15—UNAVAILABLE REVENUE:

Unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unavailable revenue totaling \$21,383 is comprised of uncollected tax billings not available for funding of current expenditures at June 30, 2014.

NOTE 16—RESTATEMENT OF BEGINNING NET POSITION:

Beginning net position was restated as follows:

	<u>Net Position</u> <u>Governmental</u> <u>Activities</u>
July 1, 2013, as previously reported	\$ 3,004,597
Restatement of capital assets for donated land	<u>229,603</u>
July 1, 2013, as restated	<u>\$ 3,234,200</u>

TOWN OF WARSAW, VIRGINIA

Notes to Financial Statements: (Continued)
At June 30, 2014

NOTE 17—UPCOMING GASB PRONOUNCEMENTS:

At June 30, 2014, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Town. The statements which might impact the Town are as follows:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014.

The Town has not yet determined the effect these GASB Statements will have on its financial statements.

Required Supplementary Information

Note to Required Supplementary Information:

**Presented Budgets were prepared in
accordance with Accounting Principles
Generally Accepted in the United States of
America.**

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
General property taxes	\$ 173,000	\$ 173,000	\$ 177,327	\$ 4,327
Other local taxes	403,000	403,000	676,323	273,323
Permits, privilege fees, and regulatory licenses	1,500	1,500	5,125	3,625
Fines and forfeitures	20,000	20,000	21,629	1,629
Revenue from the use of money and property	3,500	3,500	29,674	26,174
Charges for services	5,515	5,515	47,238	41,723
Miscellaneous	15,000	15,000	16,269	1,269
Intergovernmental revenues:				
Commonwealth	58,565	58,565	78,413	19,848
Federal	5,100	5,100	18,930	13,830
Total revenues	<u>\$ 685,180</u>	<u>\$ 685,180</u>	<u>\$ 1,070,928</u>	<u>\$ 385,748</u>
EXPENDITURES				
Current:				
General government administration	\$ 306,700	\$ 306,700	\$ 291,937	\$ 14,763
Public safety	267,190	267,190	237,608	29,582
Public works	183,920	183,920	168,756	15,164
Community development	27,400	27,400	49,084	(21,684)
Capital projects	62,100	62,100	274,765	(212,665)
Debt service:				
Principal retirement	18,031	18,031	18,031	-
Interest and other fiscal charges	545	545	545	-
Total expenditures	<u>\$ 865,886</u>	<u>\$ 865,886</u>	<u>\$ 1,040,726</u>	<u>\$ (174,840)</u>
Excess (deficiency) of revenues over (under) expenditures				
	<u>\$ (180,706)</u>	<u>\$ (180,706)</u>	<u>\$ 30,202</u>	<u>\$ 210,908</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (40,000)	\$ (40,000)	\$ (923)	\$ 39,077
Issuance of rural development loan	-	-	34,300	34,300
Total other financing sources and uses	<u>\$ (40,000)</u>	<u>\$ (40,000)</u>	<u>\$ 33,377</u>	<u>\$ 73,377</u>
Net change in fund balances				
	<u>\$ (220,706)</u>	<u>\$ (220,706)</u>	<u>\$ 63,579</u>	<u>\$ 284,285</u>
Fund balances - beginning	220,706	220,706	2,539,890	2,319,184
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,603,469</u>	<u>\$ 2,603,469</u>

Schedule of Pension Funding Progress
For the Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2011	\$ 1,462,922	\$ 1,809,937	\$ 347,015	80.83%	\$ 529,658	65.52%
June 30, 2012	1,474,439	1,944,146	469,707	75.84%	529,082	88.78%
June 30, 2013	1,567,223	2,036,392	469,169	76.96%	556,011	84.38%

Supporting Schedules

Schedule of Revenues - Budget and Actual

General Fund

For the Year Ended June 30, 2014

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 141,000	\$ 141,000	\$ 133,897	\$ (7,103)
Personal property taxes	32,000	32,000	43,430	11,430
Total general property taxes	<u>\$ 173,000</u>	<u>\$ 173,000</u>	<u>\$ 177,327</u>	<u>\$ 4,327</u>
Other local taxes:				
Local sales and use taxes	\$ 60,000	\$ 60,000	\$ 73,722	\$ 13,722
Consumers' utility taxes	14,500	14,500	14,847	347
Cigarette taxes	60,000	60,000	67,086	7,086
Cellular phone taxes	45,000	45,000	47,298	2,298
Business license taxes	83,000	83,000	83,922	922
Motor vehicle licenses	22,500	22,500	20,746	(1,754)
Bank stock taxes	88,000	88,000	106,777	18,777
Hotel and motel room taxes	7,500	7,500	6,965	(535)
Restaurant food taxes	22,500	22,500	254,960	232,460
Total other local taxes	<u>\$ 403,000</u>	<u>\$ 403,000</u>	<u>\$ 676,323</u>	<u>\$ 273,323</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 5,125</u>	<u>\$ 3,625</u>
Fines and forfeitures:				
Court fines and forfeitures	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 21,629</u>	<u>\$ 1,629</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 500	\$ 500	\$ 26,674	\$ 26,174
Revenue from use of property	3,000	3,000	3,000	-
Total revenue from use of money and property	<u>\$ 3,500</u>	<u>\$ 3,500</u>	<u>\$ 29,674</u>	<u>\$ 26,174</u>
Charges for services:				
Charges for sanitation and waste removal	<u>\$ 5,515</u>	<u>\$ 5,515</u>	<u>\$ 47,238</u>	<u>\$ 41,723</u>

Schedule of Revenues - Budget and Actual

General Fund

For the Year Ended June 30, 2014

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Miscellaneous revenue:				
Miscellaneous	\$ 500	\$ 500	\$ 302	\$ (198)
Trash dumpsters	2,500	2,500	3,857	1,357
RC/Glenns haul transfer	12,000	12,000	12,110	110
Total miscellaneous revenue	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 16,269</u>	<u>\$ 1,269</u>
Total revenue from local sources	<u>\$ 621,515</u>	<u>\$ 621,515</u>	<u>\$ 973,585</u>	<u>\$ 352,070</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Personal property tax relief funds	<u>\$ 17,365</u>	<u>\$ 17,365</u>	<u>\$ 17,365</u>	<u>\$ -</u>
Categorical aid:				
Shared expenses:				
Local law enforcement assistance	<u>\$ 32,500</u>	<u>\$ 32,500</u>	<u>\$ 32,548</u>	<u>\$ 48</u>
Other categorical aid:				
Fireman's insurance fund	\$ 7,200	\$ 7,200	\$ 18,000	\$ 10,800
Local law enforcement block grant	1,500	1,500	500	(1,000)
Other categorical aid	-	-	10,000	10,000
Total other categorical aid	<u>\$ 8,700</u>	<u>\$ 8,700</u>	<u>\$ 28,500</u>	<u>\$ 19,800</u>
Total categorical aid	<u>\$ 41,200</u>	<u>\$ 41,200</u>	<u>\$ 61,048</u>	<u>\$ 19,848</u>
Total revenue from the Commonwealth	<u>\$ 58,565</u>	<u>\$ 58,565</u>	<u>\$ 78,413</u>	<u>\$ 19,848</u>
Revenue from the federal government:				
Categorical aid:				
DMV ground transportation safety grant	\$ 4,500	\$ 4,500	\$ 2,725	\$ (1,775)
Community facility grant program	-	-	15,854	15,854
Other federal categorical aid	600	600	351	(249)
Total categorical aid	<u>\$ 5,100</u>	<u>\$ 5,100</u>	<u>\$ 18,930</u>	<u>\$ 13,830</u>
Total revenue from the federal government	<u>\$ 5,100</u>	<u>\$ 5,100</u>	<u>\$ 18,930</u>	<u>\$ 13,830</u>
Total General Fund	<u><u>\$ 685,180</u></u>	<u><u>\$ 685,180</u></u>	<u><u>\$ 1,070,928</u></u>	<u><u>\$ 385,748</u></u>

Schedule of Expenditures - Budget and Actual
 General Fund
 For the Year Ended June 30, 2014

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Salaries	\$ 160,500	\$ 160,500	\$ 163,609	\$ (3,109)
Payroll taxes	12,300	12,300	12,743	(443)
Employee benefits	45,500	45,500	41,434	4,066
Telephone	2,500	2,500	2,022	478
Electricity	4,000	4,000	3,925	75
Buildings and grounds maintenance	5,000	5,000	5,311	(311)
Cigarette tax stamps	3,000	3,000	-	3,000
Recodification	1,000	1,000	-	1,000
Audit	7,000	7,000	6,500	500
Legal services	4,000	4,000	1,145	2,855
Advertising	3,000	3,000	2,488	512
Automotive operations and maintenance	2,500	2,500	169	2,331
Office supplies	7,000	7,000	8,729	(1,729)
Computer retainer	6,000	6,000	5,908	92
Computer maintenance	3,500	3,500	3,257	243
Dues	-	-	1,807	(1,807)
Insurance	30,000	30,000	26,956	3,044
Council	3,000	3,000	1,551	1,449
Election	2,500	2,500	2,076	424
Miscellaneous	4,400	4,400	2,307	2,093
Total general government administration	\$ 306,700	\$ 306,700	\$ 291,937	\$ 14,763
Public safety:				
Law enforcement and traffic control:				
Police salary	\$ 144,000	\$ 144,000	\$ 130,015	\$ 13,985
Payroll taxes	10,900	10,900	11,307	(407)
Employee benefits	61,080	61,080	53,767	7,313
Education and professional development	1,500	1,500	1,591	(91)
Automotive operations and maintenance	15,000	15,000	11,309	3,691
Uniforms	1,000	1,000	1,016	(16)
Police supplies	1,000	1,000	1,029	(29)
Office supplies and equipment	2,600	2,600	2,922	(322)

Schedule of Expenditures - Budget and Actual

General Fund

For the Year Ended June 30, 2014

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Public safety: (Continued)				
Law enforcement and traffic control: (Continued)				
Technical support	\$ 5,100	\$ 5,100	\$ 4,494	\$ 606
Telecommunications	2,500	2,500	1,762	738
Community safety	2,500	2,500	1,319	1,181
DMV grant	4,500	4,500	2,725	1,775
Police academy	1,210	1,210	1,210	-
Advertising	300	300	295	5
Legal	1,000	1,000	-	1,000
Books and subscriptions	300	300	172	128
Dues	200	200	175	25
Total law enforcement and traffic control	\$ 254,690	\$ 254,690	\$ 225,108	\$ 29,582
Fire and rescue services:				
Fire department and rescue squad	\$ 12,500	\$ 12,500	\$ 12,500	\$ -
Total public safety	\$ 267,190	\$ 267,190	\$ 237,608	\$ 29,582
Public works:				
Public service:				
Salaries	\$ 74,500	\$ 74,500	\$ 75,253	\$ (753)
Payroll taxes	6,000	6,000	6,546	(546)
Employee benefits	22,570	22,570	20,976	1,594
Repairs to trash truck	10,000	10,000	6,921	3,079
Operation trash truck	31,800	31,800	29,358	2,442
Uniforms	2,000	2,000	1,431	569
Supplies	300	300	261	39
Safety equipment	250	250	9	241
Street lights	30,000	30,000	25,452	4,548
Christmas lights	4,000	4,000	2,373	1,627
Miscellaneous	2,500	2,500	176	2,324
Total public works	\$ 183,920	\$ 183,920	\$ 168,756	\$ 15,164

Schedule of Expenditures - Budget and Actual
 General Fund
 For the Year Ended June 30, 2014

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Community development:				
Contributions:				
NN Tourism	\$ 1,200	\$ 1,200	\$ 1,200	\$ -
State fire insurance	7,200	7,200	18,000	(10,800)
RCC lights	250	250	250	-
Public library	6,000	6,000	6,000	-
Econ development initiative	3,000	3,000	-	3,000
Warsaw museum	500	500	-	500
Main Street program	8,000	8,000	23,000	(15,000)
Fireworks festival	500	500	500	-
Other	750	750	134	616
Total community development	<u>\$ 27,400</u>	<u>\$ 27,400</u>	<u>\$ 49,084</u>	<u>\$ (21,684)</u>
Capital projects:				
Capital outlays	<u>\$ 62,100</u>	<u>\$ 62,100</u>	<u>\$ 274,765</u>	<u>\$ (212,665)</u>
Debt service:				
Principal retirement	\$ 18,031	\$ 18,031	\$ 18,031	\$ -
Interest and other fiscal charges	545	545	545	-
Total debt service	<u>\$ 18,576</u>	<u>\$ 18,576</u>	<u>\$ 18,576</u>	<u>\$ -</u>
Total General Fund	<u><u>\$ 865,886</u></u>	<u><u>\$ 865,886</u></u>	<u><u>\$ 1,040,726</u></u>	<u><u>\$ (174,840)</u></u>

Statistical Information

Government-wide Expenses by Function
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Public Safety	Public Works	Community Development	Interest on Long-term Debt	Water and Sewer	Total
2004-05	\$ 228,829	\$ 209,399	\$ 170,695	\$ 13,050	\$ -	\$ 587,103	\$ 1,209,076
2005-06	241,212	215,936	193,574	14,550	-	622,499	1,287,771
2006-07	242,198	214,534	195,192	17,750	-	648,530	1,318,204
2007-08	272,003	247,163	222,030	15,250	5,248	728,520	1,490,214
2008-09	214,151	288,650	242,777	15,250	3,856	837,553	1,602,237
2009-10	295,005	279,345	217,501	16,378	3,283	771,881	1,583,393
2010-11	275,859	253,487	211,454	22,923	2,638	961,958	1,728,319
2011-12	315,329	242,653	218,511	30,200	1,970	1,144,277	1,952,940
2012-13	330,946	269,754	206,804	19,091	1,274	1,177,722	2,005,591
2013-14	321,216	263,835	199,814	49,084	545	1,158,489	1,992,983

TOWN OF WARSAW, VIRGINIA

Government-wide Revenues
Last Ten Fiscal Years

Fiscal Year	PROGRAM REVENUES				General Property Taxes
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
2004-05	\$ 633,275	\$ 52,015	\$ -	\$	126,904
2005-06	545,614	50,228	30,263		127,482
2006-07	627,069	53,114	6,618		180,377
2007-08	694,581	51,505	1,513		174,156
2008-09	719,911	81,675	5,604,787		167,811
2009-10	1,036,604	43,398	1,748,704		175,783
2010-11	998,675	44,023	331,061		178,348
2011-12	905,340	48,314	38,023		182,318
2012-13	914,596	37,364	229,603		183,303
2013-14	1,095,315	54,124	1,094		183,839

Table 2

GENERAL REVENUES					
Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Gain on Sale of Capital Asset	Total
\$ 538,230	\$ 38,522	\$ 22,323	\$ 18,838	\$ -	\$ 1,430,107
620,939	89,376	17,741	17,295	-	1,498,938
661,964	94,055	23,301	19,016	-	1,665,514
684,007	82,116	17,311	19,033	45,000	1,769,222
663,689	67,433	15,274	17,365	-	7,337,945
626,566	53,065	35,545	61,576	-	3,781,241
649,013	37,249	14,086	17,610	-	2,270,065
674,981	34,393	36,727	17,365	-	1,937,461
665,618	45,599	15,016	17,365	-	2,108,464
676,323	44,354	16,269	43,219	-	2,114,537

General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Public Safety	Public Works	Community Development	Debt Service	Total (2)
2004-05	\$ 209,117	\$ 194,731	\$ 145,662	\$ 13,050	\$ -	\$ 562,560
2005-06	223,208	208,064	169,917	14,550	-	615,739
2006-07	228,634	204,481	175,393	30,200	-	638,708
2007-08	255,967	232,417	181,767	15,250	17,028	702,429
2008-09	261,404	269,794	203,586	15,250	18,576	768,610
2009-10	289,156	310,628	182,378	16,378	18,576	817,116
2010-11	255,313	228,877	175,844	22,923	18,576	701,533
2011-12	266,497	240,571	184,257	30,200	18,576	740,101
2012-13	298,509	243,617	171,836	19,091	18,576	751,629
2013-14	291,937	237,608	168,756	49,084	18,576	765,961

(1) Includes General fund only.

(2) Capital projects excluded.

TOWN OF WARSAW, VIRGINIA

General Governmental Revenues by Source (1)

Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, and Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property
2004-05	\$ 126,904	\$ 538,231	\$ 7,455	\$ 31,444	\$ 17,880
2005-06	127,482	620,939	8,455	23,919	30,281
2006-07	180,377	661,964	3,487	26,523	39,230
2007-08	174,156	684,007	2,630	20,788	49,469
2008-09	167,811	663,689	2,950	22,235	41,901
2009-10	160,641	626,566	1,645	19,546	33,992
2010-11	175,789	649,013	1,241	14,158	24,061
2011-12	184,199	674,981	1,865	14,322	30,601
2012-13	184,252	665,618	3,175	26,237	30,798
2013-14	177,327	676,323	5,125	21,629	29,674

(1) Includes General fund only.

Table 4

Charges for Services		Miscellaneous	Inter- governmental		Total
\$	46,615	\$	16,330	\$	69,853
	47,645		17,741		67,524
	35,802		21,301		72,130
	36,296		17,311		70,538
	54,212		15,274		99,040
	49,543		35,545		104,974
	49,705		14,086		61,633
	48,790		36,727		65,679
	47,203		15,016		54,729
	47,238		16,269		97,343
					854,712
					943,986
					1,040,814
					1,055,195
					1,067,112
					1,032,452
					989,686
					1,057,164
					1,027,028
					1,070,928

Compliance

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Members of the Town Council
Town of Warsaw, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Warsaw, Virginia as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Warsaw, Virginia's basic financial statements and have issued our report thereon dated April 28, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Warsaw, Virginia'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, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Warsaw, Virginia's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2014-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Warsaw, Virginia's financial statements are free from 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, Virginia's Response to Findings

Town of Warsaw, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Warsaw, Virginia'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 results 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.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
April 28, 2015

TOWN OF WARSAW, VIRGINIA

Schedule of Findings and Responses
For the Year Ended June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of Auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

Findings:

Material weakness:
2014-001

Criteria:

Per Statement of Auditing Standards 115 (SAS 115), identification of adjustments to the financial statements that were not detected by the entity's internal controls indicate that a material weakness may exist.

Condition:

The Town's financial statements required a material adjusting entry by the Auditor to record the donation of land to ensure such statements complied with Generally Accepted Accounting Principles (GAAP).

Cause and Context of Condition:

A settlement statement showed that a parcel of land was donated to the Town on June 17, 2013. The donated land was received prior to June 30, 2013, however it was not recorded in the automated accounting system until fiscal year 2014 resulting in a restatement of net position.

Effect:

There is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls over financial reporting.

Recommendation:

We recommend that donated capital assets be recorded in the automated accounting system in the proper accounting period. The Town should review their procedures related to the recording of donated capital assets. Communication within the Town of nonfinancial transactions affecting the Town is integral in ensuring that nonfinancial transactions such as donated capital assets are properly captured and recorded in the Town's financial statements.

Management's Response:

Management will implement the above procedures as recommended by the Auditors'.