

TOWN OF SAWMILLS, NORTH CAROLINA

Financial Statements, Supplemental Schedules,
Independent Auditors' Report and Compliance Report
For the Year Ended June 30, 2014

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

TOWN OF SAWMILLS, NORTH CAROLINA

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, , each major fund, and the aggregate remaining fund information of the Town of Sawmills, North Carolina as of and for the year ended June 30, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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, each major fund, and the aggregate remaining fund information of the Town of Sawmills, North Carolina, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in 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 and budgetary comparison information on pages 4 through 12 and pages 39 through 45 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sawmills, North Carolina's basic financial statements. The individual fund financial statements, budgetary schedules, and other schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2014, on our consideration of the Town of Sawmills, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town of Sawmills, North Carolina's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Sawmills Church & Co." in a cursive script.

Morganton, North Carolina
October 3, 2014

Management's Discussion and Analysis

As the management of the Town of Sawmills, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

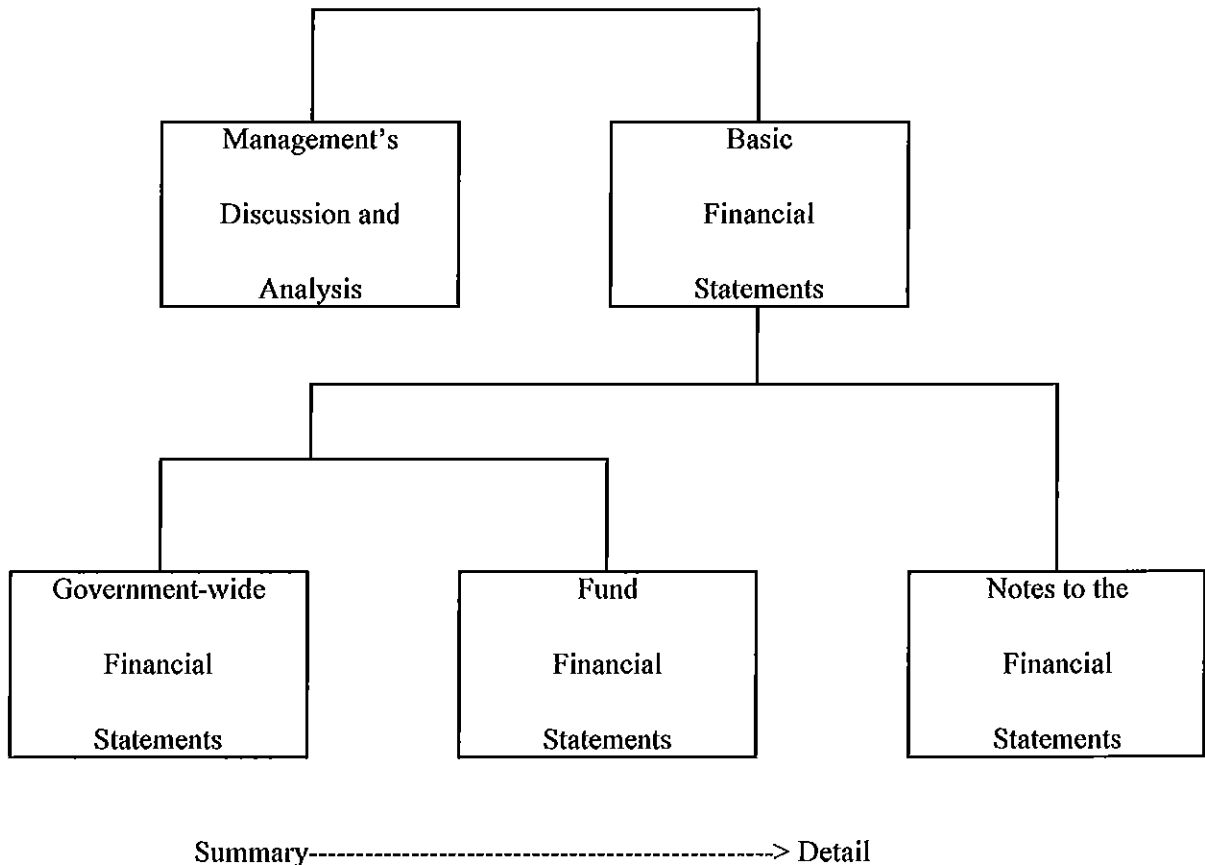
Financial Highlights

- The Town of Sawmills' assets exceeded its liabilities at the close of the fiscal year by \$14,769,685 (net position).
- The government's total net position increased by \$368,423.
- As of the close of the current fiscal year, the Town of Sawmills' governmental funds reported ending fund balance of \$4,381,356, an increase of \$185,361 in comparison with the prior year. Approximately 86 percent of this total amount, or \$3,778,902, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,778,902, or 217 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Sawmills' basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Sawmills.

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 10) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Town government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the Town of Sawmills' most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Sawmills, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Sawmills can be divided into two categories: governmental funds and proprietary funds.

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

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

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

Interdependence with Other Entities - The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow Exhibit 10 of this report.

Government-Wide Financial Analysis

Town of Sawmills' Net Position						
Figure 2						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$4,501,945	\$4,340,944	\$3,744,316	\$3,761,303	\$ 8,246,262	\$ 8,102,248
Capital assets	<u>2,585,046</u>	<u>2,412,957</u>	<u>4,158,826</u>	<u>4,105,568</u>	<u>6,743,871</u>	<u>6,518,524</u>
Total assets	<u>\$7,086,991</u>	<u>\$6,753,901</u>	<u>\$7,903,142</u>	<u>\$7,866,871</u>	<u>\$14,990,133</u>	<u>\$14,620,772</u>
Liabilities:						
Long term liabilities outstanding	\$ 26,062	\$ 30,372	\$ 99,545	\$ 105,244	\$ 125,607	\$ 135,616
Other liabilities	<u>5,928</u>	<u>11,927</u>	<u>88,913</u>	<u>71,967</u>	<u>94,841</u>	<u>83,894</u>
Total liabilities	<u>\$ 31,990</u>	<u>\$ 42,299</u>	<u>\$ 188,458</u>	<u>\$ 177,211</u>	<u>\$ 220,448</u>	<u>\$ 219,510</u>
Net position:						
Net investment in capital assets	\$2,585,046	\$2,412,957	\$4,064,735	\$4,005,596	\$ 6,649,781	\$ 6,418,553
Restricted	512,454	557,404	-	-	512,454	557,404
Unrestricted	<u>3,957,501</u>	<u>3,741,241</u>	<u>3,649,949</u>	<u>3,684,064</u>	<u>7,607,450</u>	<u>7,425,305</u>
Total net position	<u>\$7,055,001</u>	<u>\$6,711,602</u>	<u>\$7,714,684</u>	<u>\$7,689,660</u>	<u>\$14,769,685</u>	<u>\$14,401,262</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Sawmills exceeded liabilities by \$14,769,685 as of June 30, 2014. The Town's net position increased by \$368,423 for the fiscal year ended June 30, 2014. The largest portion of net position (45%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Sawmills uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,607,450 is unrestricted.

Town of Sawmills
Changes in Net Position

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 189,044	\$ 194,730	\$ 703,961	\$ 698,414	\$ 893,005	\$ 893,144
Operating grants and contributions	151,374	166,739	-	-	151,374	166,739
Capital grants and contributions	-	-	19,367	-	19,367	-
General revenues:						
Property taxes	500,898	457,609	-	-	500,898	457,609
Other taxes	890,480	864,710	-	-	890,480	864,710
Grants and contributions not restricted to specific programs	162,659	157,335	-	-	162,659	157,335
Other	12,782	11,229	12,681	3,693	25,463	14,922
Total revenues	<u>1,907,237</u>	<u>1,852,352</u>	<u>736,009</u>	<u>702,107</u>	<u>2,643,246</u>	<u>2,554,459</u>
Expenses:						
General government	677,632	801,408	-	-	677,632	801,408
Transportation	294,189	359,609	-	-	294,189	359,609
Environmental protection	286,997	270,103	-	-	286,997	270,103
Economic development	53,148	20,143	-	-	53,148	20,143
Culture and recreation	251,872	284,512	-	-	251,872	284,512
Water and sewer	-	-	710,985	581,682	710,985	581,682
Total expenses	<u>1,563,838</u>	<u>1,735,775</u>	<u>710,985</u>	<u>581,682</u>	<u>2,274,823</u>	<u>2,317,457</u>
Increase in net position	343,399	116,577	25,024	120,426	368,423	237,003
Net position - July 1	<u>6,711,602</u>	<u>6,595,025</u>	<u>7,689,660</u>	<u>7,569,234</u>	<u>14,401,262</u>	<u>14,164,259</u>
Net position - June 30	<u>\$7,055,001</u>	<u>\$6,711,602</u>	<u>\$7,714,684</u>	<u>\$7,689,660</u>	<u>\$14,769,685</u>	<u>\$14,401,262</u>

Governmental Activities - Governmental activities increased the Town of Sawmills' net position by \$343,399. Key elements of this increase are as follows:

- Public Works employee resigned and the position was not filled during the fiscal year.
- The Town ended the year 10% under budget on expenditures.
- Slight increase in property tax revenue.

Business-type Activities - Business-type activities increased the Town of Sawmills' net position by \$25,024.

Financial Analysis of the Town of Sawmills' Funds

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

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

The general fund is the chief operating fund of the Town of Sawmills. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,778,902, while total fund balance reached \$4,291,356. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 217 percent of total General Fund expenditures.

At June 30, 2014, the governmental funds of the Town reported a fund balance of \$4,381,356, a 4 percent increase from last year.

Budgetary Highlights - During the fiscal year, the Town of Sawmills revised the budget on one occasion. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

- The budget was amended on August 20, 2013, in the amount of \$70,000, to cover the remaining construction costs for the Public Works storage building from Fiscal Year 2012-2013.
- The budget was amended on October 15, 2013 transferring the amount of \$60,000 from the Capital Reserve Fund to the General Fund for the purchase of a refuse truck.
- The budget was amended on January 2, 2014, in the amount of \$14,000, for a donation to Sawmills Elementary School.

Proprietary Funds - The Town of Sawmills' proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$3,684,064. The total growth in net position for Water and Sewer Fund was \$120,426. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Sawmills' business-type activities.

Capital Asset and Debt Administration

Capital Assets - The Town of Sawmills' investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$6,743,872 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

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

- Purchase of a new refuse truck
- Resurfacing of Woodland Drive
- Baird park concession stand improvements

Town of Sawmills' Capital Assets

Figure 4

	Governmental Activities		Business-type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 225,239	\$ 225,239	\$ 5,436	\$ 5,436	\$ 230,675	\$ 230,675
Buildings	493,715	433,873	-	-	493,715	433,873
Improvements (other than buildings)	271,065	144,487	-	-	271,065	144,487
Machinery and equipment	166,338	166,338	179,758	179,758	346,096	346,096
Vehicles	997,790	758,990	100,169	47,133	1,097,959	806,123
Water distribution system	-	-	2,555,253	2,423,431	2,555,253	2,423,431
Sewer lines	-	-	3,212,973	3,212,973	3,212,973	3,212,973
Parks	2,426,881	2,426,881	-	-	2,426,881	2,426,881
Office equipment	<u>38,925</u>	<u>38,925</u>	<u>-</u>	<u>-</u>	<u>38,925</u>	<u>38,925</u>
Total	4,619,952	4,194,732	6,053,589	5,868,731	10,673,541	10,063,463
Accumulated depreciation	<u>(2,034,905)</u>	<u>(1,781,775)</u>	<u>(1,894,763)</u>	<u>(1,763,164)</u>	<u>(3,929,668)</u>	<u>(3,544,939)</u>
Capital assets, net	<u>\$ 2,585,046</u>	<u>\$ 2,412,957</u>	<u>\$ 4,158,826</u>	<u>\$ 4,105,568</u>	<u>\$ 6,743,872</u>	<u>\$ 6,518,524</u>

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

Long-term Debt - As of June 30, 2014, the Town of Sawmills had no bonded debt outstanding. The Town's debt of \$94,090 represents a loan for water line construction. The Town's total debt decreased by \$5,881 during the past year due to payments.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Sawmills is \$17,064,518. The Town of Sawmills has no bonds authorized but un-issued as of June 30, 2014.

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

Economic Factors and Next Year's Budgets and Rates

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

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

Budget Highlights for the Fiscal Year Ending June 30, 2015

The Town of Sawmills' overall budget for FY 2014-2015 totals \$3,092,391.

The proposed budget includes:

- no tax increases;
- minor increases of the water and sewer rates;
- an allocation to the Capital Reserve Fund
- establishment of a sewer availability fee and right of way encroachment fee;
- no appropriation of General Fund unassigned reserves will be made for the fiscal year;
- maintains current levels of service;
- maintains current levels of benefits for employees

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

General Fund:

The proposed ad valorem tax rate for FY 2014-2015 is to remain at 20 cents per \$100 valuation with a collection rate of 90.90%. Each penny of the Town's property tax rate generates approximately \$20,767.00.

The General Fund currently remains debt free. The Town of Sawmills attempts to pay for capital outlay items from actual revenue sources and/or reserves rather than issuing bonds or borrowing funds and paying interest on debt. As has been the case in the previous three budgets, the Town will not need an appropriation of General Fund unrestricted reserves in order to balance the budget.

Anticipated State collected local revenues have been calculated utilizing data supplied by the North Carolina League of Municipalities and local economic data. The Town is anticipating extremely small increases in most of these revenue sources as a result of the slowly improving local, state and national economies.

Some highlights in the General Fund departmental budgets include:

- donation of \$14,000 to match a North Carolina Department of Public Instruction grant to fund a full time school resource officer at Sawmills Elementary School;
- creation of a Household Hazardous Waste Collection Day Event;
- transition to an improved curbside recycling service;
- creation of a fireworks display to be held during Memorial Day 2015;
- construction of additional restroom facilities at Sawmills Veterans Memorial Park;
- major repairs to the Sawmills Municipal Park walking trail;
- employee salary adjustments and merit pay increases of up to 3%;
- allocation of anticipated excess revenues from the General Fund to the Capital Reserve Fund;
- addition of new street lights;
- installation of new automated slide gate to improve security and operational efficiency at the Public Works facility;
- significant investment in the repair and maintenance of critical road infrastructure;
- continued participation in the Caldwell County Sales Tax Reinvestment Program in the amount of \$280,000.

General fund revenues and expenditures are balanced at \$2,003,400. This amount represents a decrease of \$59,225, or a decrease of 2.9%, from the previous amended 2013-2014 Fiscal Year Budget.

Enterprise Fund:

The results of a system-wide water and sewer capital improvement plan study were presented to the Town Council in fiscal year 2013-2014. It is the obligation of the Town to make necessary system repairs, upgrades and improvements not only to meet State and Federal quality control standards, but to ensure that the service provided is performed at the highest quality possible.

In light of the continued increase in cost of water and sewer purchases from the City of Lenoir, because of the need to build Enterprise Fund reserves to address anticipated system improvements, and to maintain solvency and meet unanticipated emergency needs, both Staff and the Council are urged to continue adequate financial planning for the future. This requires adjusting water and sewer rates in the 2014-2015 Fiscal Year's Budget.

The Enterprise Fund, specifically the Water Distribution System Department, reflects a \$280,000 line item expense in Repair and Maintenance. This expense reflects an anticipated cost to perform needed waterline replacement on Bakers Circle. The Water Department also anticipates replacing our current postcard billing system with an envelope billing system. This change is required by the United States Post Office.

The Town has been awarded a \$750,000 Sewer Infrastructure Community Development Block Grant by the North Carolina Department of Commerce. The Duff Drive Sewer Expansion Project will provide sewer access to sixty-six low-to-moderate income households in Sawmills. The grant will also cover the cost of taps and connections to each home in the project area.

Projected revenues for the Enterprise Fund for Fiscal Year 2014-2015 are approximately 32% higher than Fiscal Year 2013-2014. This projected revenue increase accounts for the need to appropriate \$261,017 of Enterprise Fund net assets to balance this year's water and sewer budget for one time capital expenses.

New Water and Sewer Rates for Fiscal Year 2014-2015

Water Rates:

Water Base Rate: \$15.00

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

Sewer Rates:

Sewer Base Rate: \$18.00

Sewer Volumetric Rate: \$5.00 per 1,000 gallons after the first 2,000 gallons

Conclusion:

It is with great pride, and a lot of hard work, that we present the proposed budget for FY 2014-2015. The total budget estimates for FY 2014-2015 (across all funds) totals \$3,092,391 versus \$2,829,936 for FY 2013-2014. Staff did a great job in realizing the Town's monetary parameters and making adjustments accordingly. General Fund balance percentage is anticipated to improve this year.

I would like to thank the dedicated employees of the Town for their hard work and good stewardship of the Town's resources. These people work hard and take pride in carrying out their duties. I would like to thank the Mayor and Council for their dedication in carrying out their responsibilities in providing leadership and guidance in these times of economic uncertainty.

Requests for Information

This report is designed to provide an overview of the Town of Sawmills' finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the following:

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 1****Statement of Net Position
June 30, 2014**

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 3,874,830	\$ 3,492,157	\$ 7,366,987
Restricted cash and cash equivalents	284,937	67,324	352,261
Taxes receivable, net	114,661	-	114,661
Accounts receivable, water (net)	-	69,995	69,995
Accounts receivable, other (net)	26,125	-	26,125
Due from other governmental agencies	201,392	24,935	226,327
Inventories	-	89,906	89,906
Total current assets	<u>4,501,945</u>	<u>3,744,316</u>	<u>8,246,262</u>
Capital assets:			
Land, non-depreciable assets and construction in progress	225,239	5,436	230,675
Other capital assets, net of depreciation	<u>2,359,807</u>	<u>4,153,389</u>	<u>6,513,196</u>
Total capital assets	<u>2,585,046</u>	<u>4,158,826</u>	<u>6,743,871</u>
Total assets	<u>\$ 7,086,991</u>	<u>\$ 7,903,142</u>	<u>\$ 14,990,133</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 5,928	\$ 21,589	\$ 27,517
Utility deposits	-	67,324	67,324
Long-term liabilities:			
Due within one year	-	5,881	5,881
Due in more than one year	<u>26,062</u>	<u>93,664</u>	<u>119,726</u>
Total liabilities	<u>31,990</u>	<u>188,458</u>	<u>220,448</u>
<u>Net Position</u>			
Net investment in capital assets	2,585,046	4,064,735	6,649,781
Restricted for stabilization by state statute	227,517	-	227,517
Restricted for streets	284,937	-	284,937
Unrestricted	<u>3,957,501</u>	<u>3,649,949</u>	<u>7,607,450</u>
Total net position	<u>\$ 7,055,001</u>	<u>\$ 7,714,684</u>	<u>\$ 14,769,685</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA

Exhibit 2

Statement of Activities For the Year Ended June 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contribution	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs						
Governmental activities:						
General government	\$ 677,632	\$ -	\$ -	\$ (677,632)	\$ -	\$ (677,632)
Transportation	294,189	151,374	-	(142,815)	-	(142,815)
Environmental protection	286,997	-	-	(99,063)	-	(99,063)
Cultural and recreational	251,872	200	-	(251,672)	-	(251,672)
Economic and physical development	53,148	910	-	(52,238)	-	(52,238)
Total governmental activities	<u>1,563,838</u>	<u>151,044</u>	<u>-</u>	<u>(1,223,420)</u>	<u>-</u>	<u>(1,223,420)</u>
Business-type activities:						
Water and sewer	710,985	-	19,367	-	12,343	12,343
Total business-type activities	<u>710,985</u>	<u>-</u>	<u>19,367</u>	<u>-</u>	<u>12,343</u>	<u>12,343</u>
Total	<u>\$ 2,274,823</u>	<u>\$ 151,374</u>	<u>\$ 19,367</u>	<u>(1,223,420)</u>	<u>12,343</u>	<u>(1,211,077)</u>
General revenues:						
Ad valorem taxes				500,898	-	500,898
Local option sales tax				890,480	-	890,480
Unrestricted intergovernmental revenues				162,659	-	162,659
Unrestricted investment earnings				3,593	2,943	6,536
Miscellaneous				9,189	9,738	18,927
Total general revenues and transfers				<u>1,566,819</u>	<u>12,681</u>	<u>1,579,500</u>
Change in net position				343,399	25,024	368,423
Net position - beginning				6,711,602	7,689,660	14,401,262
Net position - ending				<u>\$ 7,055,001</u>	<u>\$ 7,714,684</u>	<u>\$ 14,769,685</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 3****Balance Sheet
Governmental Funds
June 30, 2014**

	<u>Major Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Governmental Funds</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 3,784,830	\$ 90,000	\$ 3,874,830
Restricted cash	284,937	-	284,937
Taxes receivable, net	114,661	-	114,661
Accounts receivable, other	26,125	-	26,125
Due from other governmental agencies	201,392	-	201,392
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 4,411,945</u>	<u>\$ 90,000</u>	<u>\$ 4,501,945</u>
<u>Liabilities, Deferred Inflows and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 5,928	\$ -	\$ 5,928
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>5,928</u>	<u>-</u>	<u>5,928</u>
Deferred inflows of resources:			
Property taxes receivable	114,661	-	114,661
Total deferred inflows of resources	<u>114,661</u>	<u>-</u>	<u>114,661</u>
Fund balances:			
Restricted:			
Stabilization by state statute	227,517	-	227,517
Streets	284,937	-	284,937
Assigned:			
Environmental protection	-	90,000	90,000
Unassigned	<u>3,778,902</u>	<u>-</u>	<u>3,778,902</u>
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>4,291,356</u>	<u>90,000</u>	<u>4,381,356</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 4,411,945</u>	<u>\$ 90,000</u>	<u>\$ 4,501,945</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA

Exhibit 4

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

Total governmental fund balances \$4,381,356

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

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported
in the funds. 2,585,046

Long-term liabilities and compensated absences are not due and payable in the
current period and, therefore are not reported in the funds (26,062)

Liabilities for earned revenues considered deferred inflows of resources in fund statements 114,661

Net position of governmental activities \$7,055,001

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 5****Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014**

	<u>Major Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Governmental Funds</u>
Revenues:			
Ad valorem taxes	\$ 519,261	\$ -	\$ 519,261
Local option sales taxes	890,480	-	890,480
Unrestricted intergovernmental revenues	162,659	-	162,659
Restricted intergovernmental revenues	151,374	-	151,374
Permits and fees	910	-	910
Sales and services	187,934	-	187,934
Investment earnings	3,593	-	3,593
Miscellaneous	9,388	-	9,388
Total revenues	<u>1,925,598</u>	<u>-</u>	<u>1,925,598</u>
Expenditures:			
Current:			
General government	678,517	-	692,517
Transportation	454,508	-	454,508
Environmental protection	454,172	-	454,172
Cultural and recreational	99,892	-	99,892
Economic and physical development	53,148	-	39,148
Total expenditures	<u>1,740,237</u>	<u>-</u>	<u>1,740,237</u>
Revenues over (under) expenditures	<u>185,361</u>	<u>-</u>	<u>185,361</u>
Operating transfers - in	60,000	-	60,000
Operating transfers - out	-	(60,000)	(60,000)
Total other financing sources (uses)	<u>60,000</u>	<u>(60,000)</u>	<u>-</u>
Net change in fund balances	245,361	(60,000)	185,361
Fund balances, beginning of year	<u>4,045,995</u>	<u>150,000</u>	<u>4,195,995</u>
Fund balances, end of year	<u>\$ 4,291,356</u>	<u>\$ 90,000</u>	<u>\$ 4,381,356</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA

Exhibit 6

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of the Governmental 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 changes in fund balances - total governmental funds	\$ 185,361
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 outlay exceeded depreciation in the current period.	172,089
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Change in deferred revenue for tax revenues	(18,361)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Compensated absences	<u>4,310</u>
Total changes in net position of governmental activities	<u>\$ 343,399</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA

Exhibit 7

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual General Fund

For the Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Ad valorem taxes	\$ 399,300	\$ 399,300	\$ 519,261	\$ 119,961
Local option sales taxes	856,000	856,000	890,480	34,480
Unrestricted intergovernmental revenues	126,000	126,000	162,659	36,659
Restricted intergovernmental revenues	148,000	148,000	151,374	3,374
Permits and fees	500	500	910	410
Sales and services	194,000	194,000	187,934	(6,066)
Investment earnings	4,000	4,000	3,593	(407)
Miscellaneous	5,100	5,100	9,388	4,288
Total revenues	<u>1,732,900</u>	<u>1,732,900</u>	<u>1,925,598</u>	<u>192,699</u>
Expenditures:				
Current:				
General government	771,950	771,950	678,517	93,433
Transportation	533,375	603,375	454,508	148,867
Environmental protection	443,100	503,100	454,172	48,928
Cultural and recreational	185,450	185,450	99,892	85,558
Economic and physical development	44,750	58,750	53,148	5,602
Total expenditures	<u>1,978,625</u>	<u>2,122,625</u>	<u>1,740,237</u>	<u>382,388</u>
Revenues over (under) expenditures	<u>(245,725)</u>	<u>(389,725)</u>	<u>185,361</u>	<u>575,087</u>
Other Financing Sources (Uses):				
Appropriated fund balance	245,725	329,725	-	(329,725)
Operating transfers - in (out)	-	60,000	60,000	-
Total other financing sources (uses)	<u>245,725</u>	<u>389,725</u>	<u>60,000</u>	<u>(329,725)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	245,361	<u>\$ 245,361</u>
Fund balances, beginning of year			<u>4,045,995</u>	
Fund balances, end of year			<u>\$ 4,291,356</u>	

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 8****Statement of Net Position
Proprietary Fund
June 30, 2014**

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 3,492,157
Accounts receivable - water, net	69,995
Grants receivable	24,935
Restricted cash and cash equivalents	67,324
Inventories	89,906
Total current assets	<u>3,744,317</u>
Capital assets:	
Land and other non-depreciable assets	5,436
Other capital assets, net of depreciation	<u>4,153,389</u>
Capital assets (net)	<u>4,158,825</u>
Total assets	<u>\$ 7,903,142</u>
<u>Liabilities and Net Position</u>	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 21,589
Current portion of long-term obligations	5,881
Liabilities payable out of restricted assets:	
Utility deposits	<u>67,324</u>
Total current liabilities	<u>94,794</u>
Noncurrent liabilities:	
Compensated absences payable	5,455
General obligation notes payable - noncurrent	<u>88,209</u>
Total noncurrent liabilities	<u>93,664</u>
Total liabilities	<u>188,458</u>
Net position:	
Net investment in capital assets	4,064,735
Unrestricted	<u>3,649,949</u>
Total net position	<u>\$ 7,714,684</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 9****Statement of Revenues, Expenses and
Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2014**

	<u>Enterprise Fund Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 681,033
Taps and connections	2,000
Other operating revenues	<u>20,928</u>
Total operating revenues	<u>703,961</u>
Operating Expenses:	
Water distribution	445,018
Sewer collection	134,368
Depreciation	<u>131,599</u>
Total operating expenses	<u>710,985</u>
Operating income (loss)	<u>(7,023)</u>
Nonoperating Revenues (Expenses):	
Interest on investments	2,943
Other	<u>9,738</u>
Total nonoperating revenues (expenses)	<u>12,681</u>
Change in net position before contributions	5,657
Capital contributions	<u>19,367</u>
Changes in net position	25,024
Net position - beginning of year	<u>7,689,660</u>
Net position - end of year	<u><u>\$ 7,714,684</u></u>

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

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 10
Page 1 of 2****Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014**

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

Cash received from customers	\$ 713,471
Cash paid for goods and services	(505,249)
Cash paid to employees for services	(79,690)
Customer deposits received	<u>(171)</u>
Net cash provided (used) by operating activities	<u>128,361</u>

Cash Flows From Capital Related Financing Activities:

Acquisition and construction of capital assets	(184,857)
Principal paid on general obligation notes payable	(5,881)
Capital contributions	<u>19,367</u>
Net cash provided (used) by capital and related financing activities	<u>(171,371)</u>

Cash Flows From Investing Activities:

Interest on investments	<u>2,943</u>
Net increase (decrease) in cash and cash equivalents	(40,067)
Cash and cash equivalents - beginning of year	<u>3,599,548</u>
Cash and cash equivalents - end of year	<u>\$ 3,559,481</u>

cont.

TOWN OF SAWMILLS, NORTH CAROLINA**Exhibit 10, cont.
Page 2 of 2****Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014**

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

Operating income (loss)	<u>\$ (7,023)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	131,599
Other income	9,737
Change in assets and liabilities:	
(Increase) decrease in receivables	(25,163)
Increase (decrease) in inventory	2,083
Increase (decrease) in accounts payable and accrued expenses	17,117
Increase (decrease) in customer deposits	(171)
Increase (decrease) in compensated absences payable	<u>182</u>
Total adjustments	<u>135,384</u>
Net cash provided (used) by operating activities	<u>\$ 128,361</u>

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Sawmills conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

The Town reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and State-shared revenues. The primary expenditures are for street maintenance and construction, and sanitation services, and general governmental services.

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

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

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

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

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

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

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

D. Budgetary Data

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

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

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT - Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Restricted Cash

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 164-41.4.

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2013. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

Allowances for Doubtful Accounts

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

Inventory and Prepaid Items

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

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired after July 1, 2003, consist of the road network and water and sewer system assets and are reported at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has one item that meets the criterion for this category - property taxes receivable.

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

Long-Term Obligations

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

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

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

Compensated Absences

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

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements is classified as net investment in capital assets, restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

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

Restricted for Stabilization by State Statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

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

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

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

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

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

The Town of Sawmills has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. Stewardship, Compliance and Accountability

None.

III. Detail Notes on All Funds

A. Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2014, the Town's deposits had a carrying amount of \$7,649,059 and a bank balance of \$7,653,990. Of the bank balance, \$500,000 was covered by federal depository insurance and \$7,153,990 was covered by collateral held under the pooling method.

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

Investments

At June 30, 2014, the Town of Sawmills had \$70,189 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no formal policy regarding credit risk.

Receivables - Allowances for Doubtful Accounts

The receivables shown in Exhibit 1 at June 30, 2014 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 26,125	\$122,661	\$201,392	\$350,178
Allowance for doubtful accounts	-	(8,000)	-	(8,000)
Total - governmental activities	<u>\$ 26,125</u>	<u>\$114,661</u>	<u>\$201,392</u>	<u>\$342,178</u>
Business-type Activities:				
Water and sewer	\$ 72,495	\$ -	\$ 24,935	\$ 97,430
Allowance for doubtful accounts	(2,500)	-	-	(2,500)
Total - business-type activities	<u>\$ 69,995</u>	<u>\$ -</u>	<u>\$ 24,935</u>	<u>\$ 94,930</u>

Due from other governments consists of the following:

Local option sales tax	\$149,146
Utility franchise tax	44,972
Other	7,274
	<u>\$201,392</u>

Capital Assets

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

	<u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	<u>\$ 225,239</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 225,239</u>
Capital assets being depreciated:				
Buildings	433,873	59,842	-	493,715
Improvements (other than buildings)	144,487	126,578	-	271,065
Machinery and equipment	166,338	-	-	166,338
Office equipment	38,925	-	-	38,925
Parks	2,426,881	-	-	2,426,881
Vehicles	<u>758,990</u>	<u>238,800</u>	<u>-</u>	<u>997,790</u>
Total capital assets being depreciated	<u>3,969,493</u>	<u>425,220</u>	<u>-</u>	<u>4,394,713</u>

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

	<u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>
Governmental Activities - continued:				
Less accumulated depreciated for:				
Buildings	\$ 144,201	\$ 10,639	\$ -	\$ 154,840
Other improvements	11,199	5,867	-	17,066
Machinery and equipment	201,673	6,154	-	207,827
Office equipment	38,925	-	-	38,925
Parks	791,055	147,011	-	938,066
Vehicles	<u>594,722</u>	<u>83,459</u>	-	<u>678,181</u>
Total accumulated depreciation	<u>1,781,775</u>	<u>\$253,130</u>	<u>\$ -</u>	<u>2,034,905</u>
Total capital assets being depreciated, net	<u>2,187,718</u>			<u>2,359,808</u>
Governmental activity capital assets, net	<u>\$2,412,957</u>			<u>\$2,585,046</u>

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

Governmental Activities:	
General government	\$ 3,425
Environmental protection	71,624
Cultural and recreational	151,980
Transportation	<u>26,101</u>
Total depreciation expense	<u>\$253,130</u>

Proprietary Capital Assets

The capital assets of the Proprietary Fund of the Town at June 30, 2014 are as follows:

	<u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>
Business-type Activities:				
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 5,436	\$ -	\$ -	\$ 5,436
Total capital assets not being depreciated	<u>5,436</u>	<u>-</u>	<u>-</u>	<u>5,436</u>
Capital assets being depreciated:				
Water distribution system	2,423,431	131,822	-	2,555,253
Sewer lines	3,212,973	-	-	3,212,973
Equipment	179,758	-	-	179,758
Vehicles	<u>47,133</u>	<u>53,036</u>	-	<u>100,169</u>
Total capital assets being depreciated	<u>5,863,295</u>	<u>184,858</u>	<u>-</u>	<u>6,048,153</u>
Less accumulated depreciation for:				
Water distribution system	863,277	44,249	-	907,526
Sewer lines	774,780	64,259	-	839,039
Equipment	88,250	15,420	-	103,670
Vehicles	<u>36,857</u>	<u>7,671</u>	-	<u>44,528</u>
Total accumulated depreciation	<u>1,763,164</u>	<u>\$131,599</u>	<u>\$ -</u>	<u>1,894,763</u>
Total capital assets being depreciated, net	<u>4,100,131</u>			<u>4,153,390</u>
Water and Sewer fund capital assets, net	<u>\$4,105,568</u>			<u>\$4,158,826</u>

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2014 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental activities:				
General	<u>\$ 5,183</u>	<u>\$745</u>	<u>\$ -</u>	<u>\$ 5,928</u>
Business-type activities:				
Water and sewer	<u>\$21,395</u>	<u>\$194</u>	<u>\$ -</u>	<u>\$21,589</u>

Pension Plan and Postemployment Obligations

Local Government Employees' Retirement System

Plan Description - The Town of Sawmills contributes to the statewide Local Government Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy - Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees is 7.07% of annual covered payroll. The contribution requirements of members and of the Town of Sawmills are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$33,245, \$30,324, and \$42,209, respectively. The contributions made by the Town equaled the required contributions for each year.

Other Post-Employment Benefits

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

Other Employment Benefits

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

Deferred Inflows of Resources

The balance in deferred inflows of resources at year end is as follows:

	Unavailable Revenue
Taxes receivables (net)	<u>\$114,661</u>

Risk Management

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

The Town does not carry flood insurance.

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

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

Long-Term Obligations

Notes Payable

Notes payable at June 30, 2014 are comprised of the following individual agreements:

Federal revolving loan for waterline capital project, annual payments of \$5,881, with no interest through May 2030	\$94,090
Less current maturities	<u>5,881</u>
Long term portion	<u>\$88,209</u>

Annual debt service requirements to maturity for the Town's notes payable are as follows:

	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 5,881	\$ -
2016	5,881	-
2017	5,881	-
2018	5,881	-
2019	5,881	-
2020-2024	29,405	-
2025-2029	29,405	-
2030	<u>5,875</u>	<u>-</u>
Total proprietary funds	<u>\$94,090</u>	<u>\$ -</u>

A summary of changes in long-term obligations follows:

	<u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>	<u>Current Portion</u>
Governmental activities:					
Accrued vacation pay	<u>\$ 30,372</u>	<u>\$ -</u>	<u>\$ 4,310</u>	<u>\$ 26,062</u>	<u>\$ -</u>
Total	<u>\$ 30,372</u>	<u>\$ -</u>	<u>\$ 4,310</u>	<u>\$ 26,062</u>	<u>\$ -</u>
Business-type activities:					
Notes payable	\$ 99,971	\$ -	\$ 5,881	\$ 94,090	\$ 5,881
Accrued vacation pay	<u>5,273</u>	<u>182</u>	<u>-</u>	<u>5,455</u>	<u>-</u>
Total	<u>\$105,244</u>	<u>\$ 182</u>	<u>\$ 5,881</u>	<u>\$ 99,545</u>	<u>\$ 5,881</u>

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

At June 30, 2014, Town of Sawmills had a legal debt margin of \$17,064,518.

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

Interfund Balances and Activity

Transfer to/from other funds at June 30, 2014, consist of the following:

From the Capital Projects Fund to the General Fund	\$60,000
--	----------

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

Fund Balance

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

Total fund balance-General Fund	\$4,291,356
Less:	
Stabilization by State Statute	227,517
Streets-Powell Bill	284,937
Remaining Fund Balance	3,778,902

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

III. Jointly Governed Organization

The Town, in conjunction with four counties and twenty-three other municipalities established the Western Piedmont Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid \$2,614 for membership fees during the fiscal year ended June 30, 2014.

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

TOWN OF SAWMILLS, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2014

V. Subsequent Event

Management has evaluated subsequent events through October 3, 2014, the date on which the financial statements were available to be issued. During the period from the end of the year and through this date, no circumstances occurred that require recognition or disclosure in these financial statements.

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

**General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2014
With Comparative Actual Amounts For the Year Ended June 30, 2013**

	<u>2014</u>		<u>Variance</u>	<u>2013</u>
	<u>Budget</u>	<u>Actual</u>	<u>Positive</u> <u>(Negative)</u>	<u>Actual</u>
Revenues:				
Ad valorem taxes:				
Taxes	\$ 396,550	\$ 509,927		\$ 433,013
Penalties and interest	<u>2,750</u>	<u>9,334</u>		<u>5,157</u>
	<u>399,300</u>	<u>519,261</u>	<u>\$ 119,961</u>	<u>438,170</u>
 Other taxes and licenses:				
Local option sales tax	<u>856,000</u>	<u>890,480</u>	<u>34,480</u>	<u>864,710</u>
 Unrestricted intergovernmental revenues:				
Franchise tax	<u>126,000</u>	<u>162,659</u>	<u>36,659</u>	<u>157,335</u>
 Restricted intergovernmental revenues:				
"State Street-Aid" allocation and other grants	<u>148,000</u>	<u>151,374</u>	<u>3,374</u>	<u>166,739</u>
 Permits and fees:				
Zoning permits	<u>500</u>	<u>910</u>	<u>410</u>	<u>2,686</u>
 Sales and services:				
Refuse collections	<u>194,000</u>	<u>187,934</u>	<u>(6,066)</u>	<u>191,324</u>
 Investment earnings	<u>4,000</u>	<u>3,593</u>	<u>(407)</u>	<u>4,871</u>
 Miscellaneous revenues	<u>5,100</u>	<u>9,388</u>	<u>4,288</u>	<u>7,080</u>
Total revenues	<u>1,732,900</u>	<u>1,925,598</u>	<u>192,698</u>	<u>1,832,915</u>
 Expenditures:				
General government:				
Governing body:				
Salaries and employee benefits	14,300	14,803		14,964
Election cost	5,000	4,428		-
Other operating expenditures	<u>13,050</u>	<u>7,930</u>		<u>7,465</u>
Total governing body	<u>32,350</u>	<u>27,160</u>	<u>5,190</u>	<u>22,429</u>
				cont.

TOWN OF SAWMILLS, NORTH CAROLINA**Schedule 1, cont.
Page 2 of 3**

**General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2014
With Comparative Actual Amounts For the Year Ended June 30, 2013**

	<u>2014</u>		<u>Variance Positive (Negative)</u>	<u>2013 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Expenditures (continued):				
Administrative:				
Salaries and employee benefits	\$ 199,200	\$ 184,582		\$ 176,103
Other operating expenditures	192,500	125,543		136,173
Interlocal agreement	280,000	280,000		400,000
Total administrative	<u>671,700</u>	<u>590,125</u>	<u>\$ 81,575</u>	<u>712,275</u>
Finance:				
Salaries and employee benefits	63,650	59,157		55,821
Other operating expenditures	4,250	2,075		3,510
Total finance	<u>67,900</u>	<u>61,232</u>	<u>6,668</u>	<u>59,332</u>
Total general government	<u>771,950</u>	<u>678,517</u>	<u>93,433</u>	<u>794,036</u>
Transportation:				
Salaries and employee benefits	147,700	147,014		144,411
Other operating expenditures	385,675	247,652		311,815
Capital outlay	70,000	59,842		87,108
Total transportation	<u>603,375</u>	<u>454,508</u>	<u>148,867</u>	<u>543,334</u>
Environmental protection:				
Sanitation:				
Salaries and employee benefits	97,150	94,382		88,802
Other operating expenditures	96,950	58,162		76,436
Capital outlay	243,000	238,800		-
Total sanitation	<u>437,100</u>	<u>391,344</u>	<u>45,756</u>	<u>165,237</u>
Recycling:				
Contracted services	<u>66,000</u>	<u>62,828</u>	<u>3,172</u>	<u>61,900</u>
Total environmental protection	<u>503,100</u>	<u>454,172</u>	<u>48,928</u>	<u>227,137</u>

cont.

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

**General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2014
With Comparative Actual Amounts For the Year Ended June 30, 2013**

	<u>2014</u>		<u>Variance</u>	<u>2013</u>
	<u>Budget</u>	<u>Actual</u>	<u>Positive</u> <u>(Negative)</u>	<u>Actual</u>
Expenditures (continued):				
Economic and physical development:				
Planning and zoning:				
Other operating expenditures	\$ 58,750	\$ 53,148	\$ 5,602	\$ 20,143
Cultural and recreational:				
Parks and recreation:				
Salaries and employee benefits	74,500	43,199		44,586
Other operating expenditures	110,950	56,693		105,301
Total cultural and recreational	185,450	99,892	85,558	149,887
Total expenditures	2,122,625	1,740,237	382,388	1,734,537
Revenues over (under) expenditures	(389,725)	185,361	575,086	98,378
Other Financing Sources (Uses):				
Operating transfers in (out):				
Capital reserve fund	60,000	60,000	-	(150,000)
Fund balance appropriated	329,725	-	(329,725)	-
Total other financing sources (uses)	389,725	60,000	(329,725)	(150,000)
Excess of revenues and other sources over (under) expenditures and other uses	\$ -	245,361	\$ 245,361	(51,622)
Fund balance, beginning of year		4,045,995		4,097,616
Fund balance, end of year		\$4,291,356		\$ 4,045,995

TOWN OF SAWMILLS, NORTH CAROLINA**Schedule 2****Capital Project Fund**
Schedule of Revenues, Expenditures and Other Financing Sources (Uses) -
Budget and Actual
From Inception and For the Year Ended June 30, 2014

	<u>Project</u> <u>Authorization</u>	<u>Prior</u> <u>Year</u>	<u>Actual</u> <u>Current</u> <u>Year</u>	<u>Total</u> <u>to Date</u>
Revenues:				
Expenditures:				
Vehicle	\$ 150,000	\$ -	\$ (60,000)	\$ (60,000)
Total expenditures	150,000	-	60,000	60,000
Revenues over (under) expenditures	(150,000)	-	(60,000)	(60,000)
Other Financing Sources (Uses):				
Transfers	150,000	150,000	-	150,000
Total other financing sources (uses)	150,000	150,000	-	150,000
Net change in fund balance	\$ -	\$ 150,000	\$ (60,000)	\$ 90,000

TOWN OF SAWMILLS, NORTH CAROLINA**Schedule 3
Page 1 of 2**

**Water and Sewer Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2014
With Comparative Actual Amounts for the Year Ended June 30, 2013**

	<u>2014</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2013 Actual</u>
Revenues:				
Operating revenues:				
Charges for services		\$ 681,033		\$ 679,838
Taps and connections		2,000		2,000
Other operating revenues		<u>20,928</u>		<u>16,577</u>
Total operating revenues	\$ 691,022	<u>703,961</u>	\$ 12,939	<u>698,414</u>
Non-operating revenues:				
Interest on investments		2,943		3,693
Capital contributions		<u>9,738</u>		<u>-</u>
Total non-operating revenues	<u>97,326</u>	<u>12,681</u>	<u>(84,645)</u>	<u>3,693</u>
Total revenues	<u>788,348</u>	<u>716,642</u>	<u>(71,706)</u>	<u>702,108</u>
Expenditures:				
Water distribution:				
Water purchases		238,653		203,868
Salaries and employee benefits		113,135		109,586
Other operating expenditures		93,411		58,079
Principal retirement		<u>16,381</u>		<u>16,381</u>
Total water distribution	646,348	<u>461,580</u>	184,768	<u>387,915</u>
Sewer collection:				
Sewer charges		15,954		12,012
Salaries and employee benefits		40,538		35,507
Other operating expenditures		<u>77,876</u>		<u>33,332</u>
Total sewer collection	<u>142,000</u>	<u>134,368</u>	<u>7,632</u>	<u>80,851</u>
Total expenditures	<u>788,348</u>	<u>595,948</u>	<u>192,400</u>	<u>468,766</u>
				cont.

TOWN OF SAWMILLS, NORTH CAROLINA**Schedule 3, cont.
Page 2 of 2****Water and Sewer Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2014
With Comparative Actual Amounts for the Year Ended June 30, 2013**

	<u>2014</u>		<u>Variance Positive (Negative)</u>	<u>2013 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Revenues and over (under) expenditures	<u>\$ -</u>	<u>\$ 120,693</u>	<u>\$ 120,693</u>	<u>\$ 233,341</u>
Reconciliation From Budgetary Basis (Modified Accrual) to Full Accrual:				
Revenues over (under) expenditures		\$ 120,693		\$ 233,341
Reconciling items:				
Payment on debt principal		16,381		16,381
Increase (decrease) in accrued compensated absences		183		89
Capital projects		19,367		-
Depreciation		<u>(131,599)</u>		<u>(129,385)</u>
Net income (loss)		<u>\$ 25,024</u>		<u>\$ 120,426</u>

TOWN OF SAWMILLS, NORTH CAROLINA**Schedule 4****2012 Duff Drive Area Sewer Capital Project Fund
Schedule of Revenues and Expenditures -
Budget and Actual
From Inception and For the Year Ended June 30, 2014**

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>
Revenues:				
CDBG	\$ 750,000	\$ -	\$ 73,108	\$ 73,108
Total revenues	<u>750,000</u>	<u>-</u>	<u>73,108</u>	<u>73,108</u>
Expenditures:				
Public sewer improvements	711,100	-	65,463	65,463
Administration	71,400	-	25,777	25,777
Planning	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>787,500</u>	<u>-</u>	<u>91,241</u>	<u>91,241</u>
Revenues over (under) expenditures	<u>(37,500)</u>	<u>-</u>	<u>(18,133)</u>	<u>(18,133)</u>
Other Financing Sources (Uses):				
Town commitment	<u>37,500</u>	<u>-</u>	<u>37,500</u>	<u>37,500</u>
Total other financing sources (uses)	<u>37,500</u>	<u>-</u>	<u>37,500</u>	<u>37,500</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,367</u>	<u>\$ 19,367</u>

TOWN OF SAWMILLS, NORTH CAROLINA**Schedule 5****Schedule of Ad Valorem Taxes Receivable
June 30, 2014**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2013</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2014</u>
2013 - 2014	\$ -	\$ 512,025	\$ 474,746	\$ 37,279
2012 - 2013	50,747	-	24,994	25,753
2011 - 2012	30,175	-	11,033	19,142
2010 - 2011	25,056	-	9,904	15,152
2009 - 2010	13,007	-	5,667	7,340
2008 - 2009	6,219	-	873	5,346
2007 - 2008	4,721	-	285	4,436
2006 - 2007	3,844	-	149	3,695
2005 - 2006	3,136	-	206	2,930
2004 - 2005	1,820	-	232	1,588
2003 - 2004	2,298	-	2,298	-
	<u>\$ 141,023</u>	<u>\$ 512,025</u>	<u>\$ 530,387</u>	122,661
Less allowance for uncollectible accounts:				
General fund				<u>8,000</u>
Ad valorem taxes receivable - net				<u>\$ 114,661</u>
Reconcilement with revenues:				
Taxes - Ad Valorem, General				\$ 519,355
Penalties and interest collected				(9,334)
Collection fees				13,414
Discounts and miscellaneous adjustments				4,654
Amount written off				<u>2,298</u>
				<u>\$ 530,387</u>

TOWN OF SAWMILLS, NORTH CAROLINA**Schedule 6****Analysis of Current Tax Levy
Town - Wide Levy
For the Year Ended June 30, 2014**

	<u>Town Wide</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxes at current year rate	\$ 255,941,605	0.20	\$ 511,884	\$ 428,966	\$ 82,918
Penalties	-		141	141	-
Total	255,941,605		512,025	429,107	82,918
Discoveries	-		-	-	-
Abatements	-		-	-	-
Total property valuation	<u>\$ 255,941,605</u>				
Net levy			512,025	429,107	82,918
Uncollected taxes at June 30, 2014			37,279	27,786	9,493
Current year's tax collected			<u>\$ 474,746</u>	<u>\$ 401,321</u>	<u>\$ 73,425</u>
Current levy collection percentage			<u>92.72%</u>	<u>93.52%</u>	<u>88.55%</u>

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Certified Public Accountants

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**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 Mayor and Members
of the Town Council and Citizens
Town of Sawmills, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Sawmills, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Sawmills, North Carolina's basic financial statements and have issued our report thereon dated October 3, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.

Inadequate Segregation of Duties

- Condition: The size of the Town's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. The governing board should remain involved in the financial affairs of the Town to provide oversight.
- Effect: Material misstatements could occur whether due to fraud or error and not be detected on a timely basis.
- Response: The governing board will remain involved in the financial affairs in order to provide oversight.

Preparation of the Financial Statements

- Condition: Lowdermilk Church & Co., LLP (the independent auditors) prepared the draft financial statements for the Town. As with most smaller organizations, this becomes necessary due to the cost benefit of either out-sourcing or hiring personnel with the expertise to prepare financial statements in conformity with generally accepted accounting principles.
- Effect: The financial statements may not be prepared in accordance with generally accepted accounting principles (GAAP).
- Response: The Town Council and management will continue services with the independent accountants to prepare the financial statements in accordance with generally accepted accounting principles.

Compliance and Other Matters

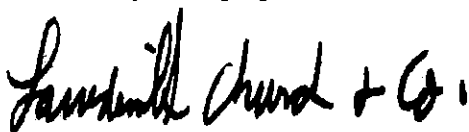
As part of obtaining reasonable assurance about whether Town of Sawmills, North Carolina's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 Sawmills, North Carolina's Response to Findings

Town of Sawmills, North Carolina's response to the findings identified in our audit is described previously. Town of Sawmills, North Carolina'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.



Morganton, North Carolina
October 3, 2014