

TOWN OF WARRENTON, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2012

Town Council Members

Walter M. Gardner Jr., Mayor

Woody King, Mayor Pro Tem

John E. Blalock

Julius Banzet, III

Mary Hunter

Robert Davie

John Mooring

Audrey Tippet

Administrative and Financial Staff

Bettie Davis, Town Clerk

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Winston, Williams, Creech, Evans, & Company, LLP

Certified Public Accountants



America Counts on CPAs

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Independent Auditor's Report

To the Honorable Mayor and Board of Commissioners
Town of Warrenton, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Warrenton, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Warrenton's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Town of Warrenton, North Carolina, as of June 30, 2012, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012 on our consideration of the Town of Warrenton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information,

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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 and comparing the information for consistency with management's responses to our inquiries, the basic financial 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Warrenton's basic financial statements. The combining and individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules have 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 combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Winston, Williams, Creech, Evans & Co., LLP

Certified Public Accountants

October 24, 2012

Management's Discussion and Analysis

As management of the Town of Warrenton, we offer readers of the Town of Warrenton's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

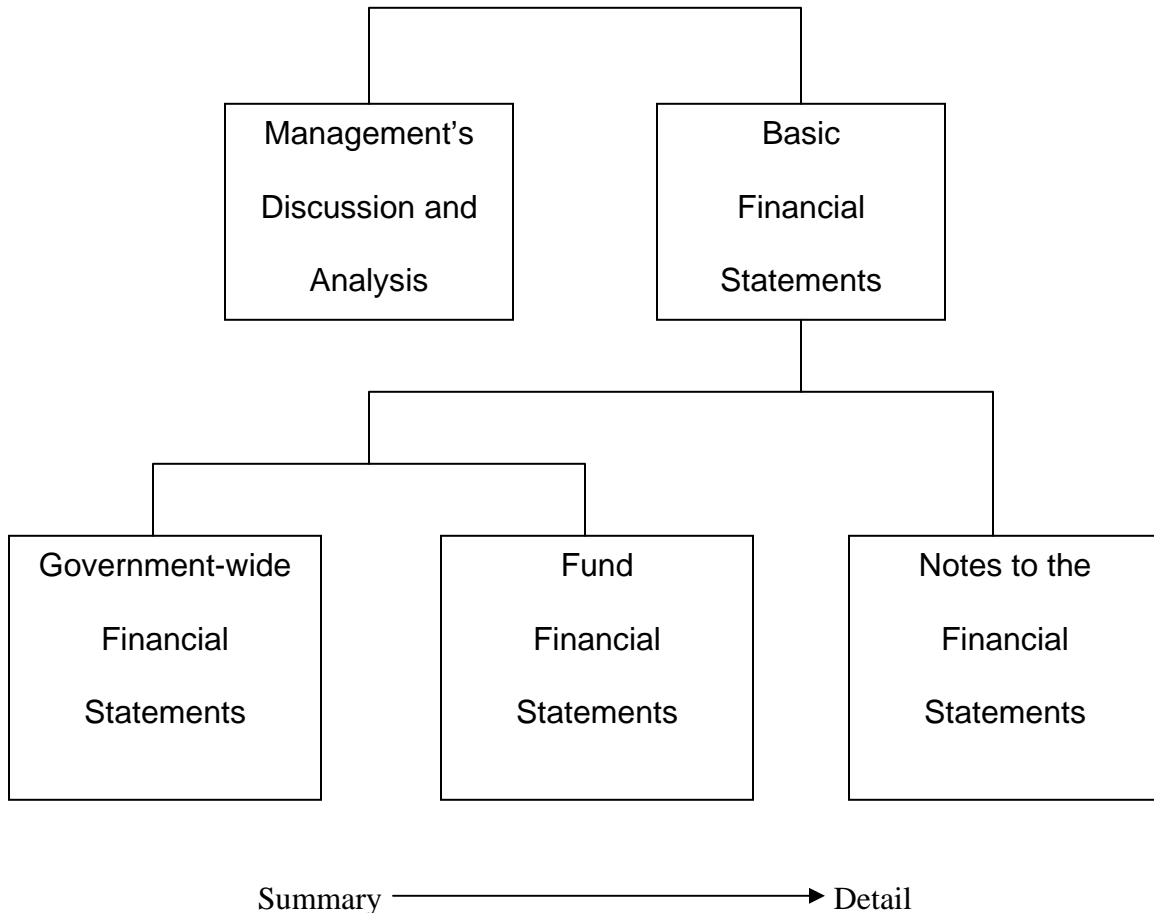
- The assets of the Town of Warrenton exceeded its liabilities at the close of the fiscal year by \$ 4,665,496 (net assets).
- The government's total net assets increased by \$14,977, primarily due to increases in the government-type activities net assets.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$518,552 an increase of \$37,230 in comparison with the prior year. Approximately 36.84 percent of this total amount, or 191,038, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$191,038, or 20.25 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's

individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

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

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

The 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 public safety, parks and recreation, and general administration. Property taxes 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 offered by the Town.

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's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Warrenton, 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 Warrenton 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's programs. The

relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 31-47 of this report.

Government-Wide Financial Analysis

The Town of Warrenton's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 595,354	\$ 562,754	\$ 405,430	\$ 323,063	\$ 1,000,784	\$ 885,817
Capital assets	114,607	167,658	3,964,327	4,104,278	4,078,934	4,271,936
Total assets	709,961	730,412	4,369,757	4,427,341	5,079,718	5,157,753
Long-term liabilities outstanding	74,516	136,920	142,985	186,213	217,501	323,133
Other liabilities	86,193	74,872	110,528	95,637	196,721	170,509
Total liabilities	160,709	211,792	253,513	281,850	414,222	493,642
Net assets:						
Invested in capital assets, net of related debt	(10,453)	(15,910)	3,856,617	3,953,054	3,846,164	3,937,144
Restricted	327,514	359,856	-	-	327,514	359,856
Unrestricted	232,191	174,674	259,627	192,437	491,818	367,111
Total net assets, as restated	\$ 549,252	\$ 518,620	\$ 4,116,244	\$ 4,145,491	\$ 4,665,496	\$ 4,664,111

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Warrenton exceeded liabilities by \$4,665,496 as of June 30, 2012. The Town of Warrenton's net assets increased by \$14,977 for the fiscal year ended June 30, 2012. A portion 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 Warrenton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Warrenton'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 of Warrenton's net assets (7.02%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$491,818 is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the total unrestricted net assets:

- Receipt of police CHRP grant

Town of Warrenton Changes in Net Assets

Figure 3

	Governmental Activities		Business-type Activities		Total	Total
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 166,622	\$ 166,897	\$ 1,284,789	\$ 1,314,662	\$ 1,451,411	\$ 1,481,559
Operating grants and contributions	73,848	65,909	-	-	73,848	65,909
Capital grants and contributions	-	-	68,260	181,331	68,260	181,331
General revenues:						
Property taxes	435,852	463,622	-	-	435,852	463,622
Other taxes	241,678	256,542	-	-	241,678	256,542
Grants and contributions not restricted to specific programs			-			
Other	20,600	14,852	26,456	23,088	47,056	37,940
Total revenues	<u>938,600</u>	<u>967,822</u>	<u>1,379,505</u>	<u>1,519,081</u>	<u>2,318,105</u>	<u>2,486,903</u>
Expenses:						
General government	150,733	137,928	-	-	150,733	137,928
Public safety	525,546	577,567	-	-	525,546	577,567
Highways/streets	159,122	113,991	-	-	159,122	113,991
Economic development	-	-	-	-	-	-
Environmental protection	90,864	104,995	-	-	90,864	104,995
Interest on long-term debt	6,299	4,774	-	-	6,299	4,774
Water and sewer	-	-	1,370,564	1,341,081	1,370,564	1,341,081
Total expenses	<u>932,564</u>	<u>939,255</u>	<u>1,370,564</u>	<u>1,341,081</u>	<u>2,303,128</u>	<u>2,280,336</u>
Transfers	33,147	28,972	(33,147)	(28,972)	-	-
Increase in net assets	39,183	57,539	(24,206)	149,028	14,977	206,567
Net assets, July 1 as restated	<u>510,069</u>	<u>461,081</u>	<u>4,140,450</u>	<u>3,996,463</u>	<u>4,650,519</u>	<u>4,457,544</u>
Net assets, June 30	<u>\$ 549,252</u>	<u>\$ 518,620</u>	<u>\$ 4,116,244</u>	<u>\$ 4,145,491</u>	<u>\$ 4,665,496</u>	<u>\$ 4,664,111</u>

Governmental activities. Governmental activities increased the Town's net assets by \$39,183, thereby accounting for 261.63% of the increase in the net assets of the Town of Warrenton. Key elements of this increase are as follows:

- Receipt of a Police CHRP grant in the amount of \$ 46,763

Business-type activities: Business-type activities decreased the Town of Warrenton's net assets by \$24,206. Key elements of this increase are as follows:

- Charges for services in the water and sewer fund decreased \$ 23,246
- There were no lease proceeds in the current fiscal year

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Warrenton'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 Warrenton's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Warrenton. At the end of the current fiscal year, Town of Warrenton's fund balance available in the General Fund was \$ 263,892, while total fund balance reached \$ 518,552. The Governing Body of Town of Warrenton has determined that the Town should maintain an available fund balance of 20% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 27.98% of general fund expenditures, while total fund balance represents 54.97% of the same amount.

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

Revenues were less than the budgeted amounts primarily because the sales tax refund has not been received yet and utility franchise tax received was less than anticipated.

Total expenditures were slightly less than budgeted.

Expenditures and revenues were favorable to budget resulting in an increase in fund balance of \$37,230, as opposed to a budgeted decrease of \$18,518.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Wastewater Treatment Fund at the end of the fiscal year amounted to (\$140,621), and those for the Water and Sewer Fund amounted to \$4,256,865. The total growth (decrease) in net assets for both funds was \$9,943 and (\$34,149) respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Warrenton's investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$4,078,934 (net of accumulated depreciation). These assets include buildings, improvements, land, machinery and equipment, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Purchase of a pump for the Water and Sewer department in the amount of \$10,947.
- Purchase of a mower and hoist for the Wastewater Treatment fund in the amount of \$12,672.
- One vehicle was transferred from the Water and Sewer department to the Police department.

**Town of Warrenton's Capital Assets
Figure 4**

(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2011	2011
Land	\$ 1,000	\$ 1,000	\$ 5,250	\$ 5,250	\$ 6,250	\$ 6,250
Buildings and systems	5,769	6,178	137,974	141,980	143,743	148,158
Improvements	-	-	162,606	-	162,606	-
Water and Sewer Lines	-	-	3,433,557	3,644,500	3,433,557	3,644,500
Machinery and equipment	20,471	27,493	118,316	118,422	138,787	145,915
Vehicles and motorized equipment	87,367	132,987	55,324	76,003	142,691	208,990
Construction in progress			51,300	118,123	51,300	118,123
Total	\$ 114,607	\$ 167,658	\$ 3,964,327	\$ 4,104,278	\$ 4,078,934	\$ 4,271,936

Additional information on the Town of Warrenton's capital assets can be found in note III of the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

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

- Warrenton is a municipality of Warren County. Warren County has experienced an unemployment rate of 12.8% at June 30, 2012, which is much higher than the state average of 9.9%.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities:

In the 2012-2013 budget the Town Board of Commissioners did not budget for any appropriation of fund balance. The Town anticipates the tax rate to remain the same. The Town anticipates continuing to receive a federal COPS grant that will fund an officer position for one additional year.

Business – type Activities:

In the 2012-2013 budget the Town Board of Commissioners did not budget for any appropriation of fund balance. The Town anticipates rates to remain the same.

Requests for Information

This report is designed to provide an overview of the Town of Warrenton 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 Mr. Robert Davie, Administrator, Town of Warrenton, P O Box 281, Warrenton, NC 27589.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		Totals June 30, 2012
	Governmental Activities	Business-type Activities	
Assets			
Current Assets			
Cash and cash equivalents	\$ 191,543	\$ 381,557	\$ 573,100
Restricted Cash	72,854	-	72,854
Receivables (net):			
Taxes	49,041	-	49,041
Accrued interest receivable on taxes	12,844	-	12,844
Accounts Receivable	72,576	165,464	238,040
Inventory	-	54,905	54,905
Internal Balances	196,496	(196,496)	-
Total current assets	595,354	405,430	1,000,784
Capital Assets (Note 1)			
Land, non-depreciable improvements and construction in progress	1,000	56,550	57,550
Other capital assets, net of depreciation	113,607	3,907,777	4,021,384
Total Capital assets	114,607	3,964,327	4,078,934
Total Assets	\$ 709,961	\$ 4,369,757	\$ 5,079,718
Liabilities:			
Current Liabilities			
Accounts payable	\$ 505	\$ 39,597	\$ 40,102
Accrued payroll	14,412	9,718	24,130
Accrued expenses	-	565	565
Accrued interest payable	3,051	-	3,051
Current portion of vacation pay	17,681	15,317	32,998
Current portion of long-term debt	50,544	45,331	95,875
Long-term Liabilities			
Accrued vacation pay	-	2,550	2,550
Customer deposits	-	78,056	78,056
Non-current portion of long- term debt	74,516	62,379	136,895
Total Liabilities	160,709	253,513	414,222
Net Assets:			
Invested in capital assets, net of related debt	(10,453)	3,856,617	3,846,164
Restricted for			
Stabilization by State Statute	254,660	-	254,660
Streets	72,854	-	72,854
Unrestricted	232,191	259,627	491,818
Total Net Assets	\$ 549,252	\$ 4,116,244	\$ 4,665,496

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
 STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 150,733	\$ 15,840	\$ -	\$ -	\$ (134,893)	\$ -	\$ (134,893)
Public Safety	525,546	2,510	46,763	-	(476,273)	-	(476,273)
Transportation	159,122	-	27,085	-	(132,037)	-	(132,037)
Economic Development	-	148,272	-	-	148,272	-	148,272
Environmental protection	90,864	-	-	-	(90,864)	-	(90,864)
Interest on long-term debt	6,299	-	-	-	(6,299)	-	(6,299)
Total governmental activities	\$ 932,564	\$ 166,622	\$ 73,848	\$ -	\$ (692,094)	\$ -	\$ (692,094)
Business-type activities:							
Wastewater Treatment	\$ 466,889	\$ 258,515	-	-	\$ -	\$ (208,374)	\$ (208,374)
Water and sewer	903,675	1,026,274	-	68,260	-	190,859	190,859
	\$ 1,370,564	\$ 1,284,789	\$ -	\$ 68,260		\$ (17,515)	\$ (17,515)
Total primary government	\$ 2,303,128	\$ 1,451,411	\$ 73,848	\$ 68,260	\$ (692,094)	\$ (17,515)	\$ (709,609)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					435,852	-	435,852
Other taxes					241,678	-	241,678
Unrestricted investment earnings					123	645	768
Miscellaneous					18,464	25,811	44,275
Gain on sale of assets					2,013	-	2,013
Transfers					33,147	(33,147)	-
Total general revenues, special items, transfers					731,277	(6,691)	724,586
Change in net assets					\$ 39,183	\$ (24,206)	\$ 14,977
Net assets - beginning, as restated					510,069	4,140,450	4,650,519
Net assets - ending					\$ 549,252	\$ 4,116,244	\$ 4,665,496

The accompanying notes are an integral part of the financial statements.

FUND FINANCIAL STATEMENTS

TOWN OF WARRENTON, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

EXHIBIT 3

	<u>GENERAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Assets		
Cash and cash equivalents	\$ 191,543	\$ 191,543
Restricted Cash	72,854	72,854
Receivables (net):		
Taxes	49,041	49,041
Property taxes receivable from the County	2,487	2,487
Franchise Tax Receivable	18,987	18,987
Sales Tax Receivable	25,133	25,133
Sales Tax Refund Due	14,966	14,966
ABC Receivable	-	-
Grant receivable	11,003	11,003
Due from other funds	<u>196,496</u>	<u>196,496</u>
Total Assets	<u><u>582,510</u></u>	<u><u>582,510</u></u>
 Liabilities and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	505	505
Accrued payroll	14,412	14,412
Deferred revenues	<u>49,041</u>	<u>49,041</u>
Total Liabilities	<u>63,958</u>	<u>63,958</u>
 Fund Balances:		
Restricted		
Stabilization by State Statute	254,660	254,660
Streets	72,854	72,854
Unassigned	<u>191,038</u>	<u>191,038</u>
Total Fund Balances	<u>518,552</u>	<u>518,552</u>
Total Liabilities and Fund Balances	<u><u>\$ 582,510</u></u>	<u><u>\$ 582,510</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF WARRENTON, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

EXHIBIT 3

Amounts reported for governmental activities in the statement of net assets
(Exhibit 1) are different because:

Total equity and other credits (Exhibit 4)	\$	518,552
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		114,607
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred.		12,844
Liabilities for earned but deferred revenues in fund statements.		49,041
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the fund statements		<u>(145,792)</u>
Net assets of governmental activities (Exhibit 1)	\$	<u>549,252</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	GENERAL FUND	TOTAL GOVERNMENTAL FUNDS JUNE 30, 2012
REVENUES :		
Ad valorem taxes	\$ 444,754	\$ 444,754
Other taxes and licenses	154,926	154,926
Restricted intergovernmental	73,848	73,848
Unrestricted intergovernmental	86,752	86,752
Permits and fees	3,491	3,491
Sales, services and fees	181,595	181,595
Investment earnings	123	123
Total Revenues	<u>945,489</u>	<u>945,489</u>
EXPENDITURES		
Current:		
General government	155,808	155,808
Public safety	485,520	485,520
Economic & Physical development	-	-
Transportation	145,856	145,856
Environmental protection	90,845	90,845
Debt service		
Principal	58,508	58,508
Interest	6,882	6,882
Total Expenditures	<u>943,419</u>	<u>943,419</u>
OTHER FINANCING SOURCES (USES)		
Installment purchase obligations issued	-	-
Sale of capital assets	2,013	2,013
Transfers	33,147	33,147
Total other financing sources (uses)	<u>35,160</u>	<u>35,160</u>
NET CHANGE IN FUND BALANCE	37,230	37,230
FUND BALANCE, BEGINNING, AS RESTATED	<u>481,322</u>	<u>481,322</u>
FUND BALANCE, ENDING	<u>\$ 518,552</u>	<u>\$ 518,552</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

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

Net changes in fund balances - total governmental funds (Exhibit 4)	\$	37,230
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital Outlay	-	
Depreciation Expense	(53,051)	(53,051)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
Change in Deferred Revenue		(8,902)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Long-Term Debt Issued	-	
Repayment of Principal of Long-Term Debt	58,508	58,508
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		5,398
Total changes in net assets of governmental activities	\$	39,183

The accompanying notes are an integral part of the financial statements.

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund			Variance Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES :				
Ad valorem taxes	\$ 438,601	\$ 438,601	\$ 444,754	\$ 6,153
Other taxes and licenses	160,270	160,270	154,926	(5,344)
Restricted intergovernmental	79,656	79,656	73,848	(5,808)
Unrestricted intergovernmental	97,400	97,400	86,752	(10,648)
Permits & fees	18,639	18,639	3,491	(15,148)
Sales, services and fees	180,370	180,370	181,595	1,225
Investment earnings	200	200	123	(77)
Total Revenues	975,136	975,136	945,489	(29,647)
EXPENDITURES				
General government	151,890	173,416	155,808	17,608
Public safety	547,021	547,021	485,520	61,501
Transportation	135,254	154,852	145,856	8,996
Environmental protection	110,618	91,715	90,845	870
Debt service				
Principal	51,688	51,688	58,508	(6,820)
Interest	8,438	8,438	6,882	1,556
Total Expenditures	1,004,909	1,027,130	943,419	83,711
REVENUES OVER (UNDER) EXPENDITURE:	(29,773)	(51,994)	2,070	54,064
OTHER FINANCING SOURCES (USES):				
Installment purchase obligations issued	-	-	-	-
Sale of capital assets	-	-	2,013	2,013
Transfers	29,773	33,476	33,147	(329)
Fund Balance appropriated	-	18,518	-	(18,518)
Total other financing sources (uses)	29,773	51,994	35,160	(16,834)
NET CHANGE IN FUND BALANCE	\$ -	\$ -	37,230	\$ 37,230
FUND BALANCE, BEGINNING, AS RESTATED			481,322	
FUND BALANCE, ENDING			\$ 518,552	

The accompanying notes are an integral part of the financial statements.

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	ENTERPRISE FUNDS		TOTAL
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	JUNE 30, 2012
ASSETS:			
CURRENT ASSETS			
Cash and Investments	\$ -	\$ 381,557	\$ 381,557
Accounts receivable (net)	55,090	110,374	165,464
Inventory	-	54,905	54,905
Total current assets	55,090	546,836	601,926
NONCURRENT ASSETS			
Land and construction in progress	-	56,550	56,550
Other capital assets net of depreciation	20,400	3,887,377	3,907,777
Total noncurrent assets	20,400	3,943,927	3,964,327
Total assets	\$ 75,490	\$ 4,490,763	\$ 4,566,253
LIABILITIES AND FUND EQUITY:			
CURRENT LIABILITIES			
Accounts payable	\$ 1	\$ 39,596	\$ 39,597
Accrued payroll	4,275	5,443	9,718
Accrued expenses	163	402	565
Retirement payable	-	-	-
Due to other funds	196,496	-	196,496
Current portion of accrued vacation pay	12,626	2,691	15,317
Current portion of long-term debt	-	45,331	45,331
Total current liabilities	213,561	93,463	307,024

The accompanying notes are an integral part of the financial statements.

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	ENTERPRISE FUNDS		TOTAL
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	JUNE 30, 2012
NONCURRENT LIABILITIES			
Accrued vacation pay	2,550	-	2,550
Customer deposits	-	78,056	78,056
Long-term Portion of debt	-	62,379	62,379
Total noncurrent liabilities	2,550	140,435	142,985
Total liabilities	216,111	233,898	450,009
NET ASSETS			
Invested in capital assets, net of related debt	20,400	3,836,217	3,856,617
Unrestricted	(161,021)	420,648	259,627
Total net assets	\$ (140,621)	\$ 4,256,865	\$ 4,116,244

The accompanying notes are an integral part of the financial statements.

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	ENTERPRISE FUNDS		TOTALS
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	JUNE 30, 2012
OPERATING REVENUES			
Charges for services	\$ 258,515	\$ 1,026,274	\$ 1,284,789
Total operating revenues	258,515	1,026,274	1,284,789
OPERATING EXPENSES			
Administration	247,961	209,529	457,490
Water and sewer operations	-	436,786	436,786
Water collection and treatment	212,487	-	212,487
Depreciation	6,441	257,360	263,801
Total	466,889	903,675	1,370,564
OPERATING INCOME (LOSS)	(208,374)	122,599	(85,775)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	29,289	127	29,416
Proceeds of sale of equipment	-	2,188	2,188
Interest earned	-	645	645
Interest paid	-	(5,793)	(5,793)
Total Nonoperating Revenues (Expenses)	29,289	(2,833)	26,456
NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(179,085)	119,766	(59,319)
Capital Contribution	-	68,260	68,260
Transfers from other funds	222,175	-	222,175
Transfers to other funds	(33,147)	(222,175)	(255,322)
Change in net assets	9,943	(34,149)	(24,206)
NET ASSETS, BEGINNING, AS RESTATED	(150,564)	4,291,014	4,140,450
TOTAL NET ASSETS, ENDING	\$ (140,621)	\$ 4,256,865	\$ 4,116,244

The accompanying notes are an integral part of the financial statements.

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	BUSINESS-TYPE ACTIVITIES		
	ENTERPRISE FUNDS		
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	TOTALS JUNE 30, 2012
Cash Flows from Operating Activities:			
Cash received from customers	\$ 229,670	\$ 1,028,436	\$ 1,258,106
Cash paid for goods and services	(295,985)	(527,546)	(823,531)
Cash paid to employees	(164,302)	(160,622)	(324,924)
Customer deposits returned	-	8,303	8,303
Net Cash Provided (Used) By Operating Activities	<u>(230,617)</u>	<u>348,571</u>	<u>117,954</u>
Cash Flows from Noncapital Financing Activities:			
Due to (from) other funds	10,002	-	10,002
Transfers from other funds	222,175	-	222,175
Transfers to other funds	(33,147)	(222,175)	(255,322)
Total Cash Flows From Noncapital Financing Activities	<u>199,030</u>	<u>(222,175)</u>	<u>(23,145)</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of fixed assets	(12,672)	(111,178)	(123,850)
Proceeds of sale of equipment	-	2,188	2,188
State grants	-	68,260	68,260
Principal paid on debt	-	(43,514)	(43,514)
Interest paid on debt	-	(5,793)	(5,793)
Installment obligations Issued	-	-	-
Miscellaneous	29,289	127	29,416
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>16,617</u>	<u>(89,910)</u>	<u>(73,293)</u>
Cash Flows from Investing Activities:			
Interest on investments	-	645	645
Net Cash Flows from Investing Activities	<u>-</u>	<u>645</u>	<u>645</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(14,970)	37,131	22,161
Cash and Cash Equivalents - Beginning of the Year	14,970	344,426	359,396
Cash and Cash Equivalents - End of the Year	<u>\$ -</u>	<u>\$ 381,557</u>	<u>\$ 381,557</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	BUSINESS-TYPE ACTIVITIES		
	ENTERPRISE FUNDS		
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	TOTALS JUNE 30, 2012
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:			
Operating Income	\$ (208,374)	\$ 122,599	\$ (85,775)
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities			
Depreciation	6,441	257,360	263,801
Change in assets and liabilities:			
Accounts receivable	(28,845)	2,162	(26,683)
Inventory	-	(43,525)	(43,525)
Accounts payable & other liabilities	1,492	3,813	5,305
Customer deposits	-	8,303	8,303
Accrued vacation	(1,331)	(2,141)	(3,472)
Net Cash Provided By Operating Activities	<u>\$ (230,617)</u>	<u>\$ 348,571</u>	<u>\$ 117,954</u>

NOTES TO FINANCIAL STATEMENTS

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Warrenton 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 Warrenton is a municipal corporation that is governed by an elected mayor and a seven-member council. These financial statements include only the Town of Warrenton, as there were no component units required to be included.

B. Basis of Presentation

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

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

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

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

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

The Town reports the following major governmental fund:

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

The Town reports the following major enterprise funds:

Enterprise Fund - Enterprise Funds account for those operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town of Warrenton has two Enterprise Funds: Water and Sewer Fund and Wastewater Treatment Fund.

The Town operates the regional wastewater treatment plant under an agreement with Warren County. The operating costs are shared with the Town of Norlina and Warren County.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad-valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in altered procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Warren County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Warrenton. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Warren County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown a receivable in these financial statements and are offset by deferred revenues.

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

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations

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 Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Grant Projects, Special Revenue and Capital Projects Fund, which are consolidated with the operating funds 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. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. The governing board must approve all amendments. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. ASSETS, LIABILITIES AND FUND EQUITY

1. Deposits and Investments

All deposits of the Town of Warrenton 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 and loan 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 (2a7) 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. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Assets

The unexpended bond proceeds of Water and Sewer Fund serial bonds issued by the Town are classified as restricted assets for the enterprise fund because their use is completely restricted to the purpose for which the bonds were originally issued. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. There were no outstanding Water and Sewer Fund Serial bonds at June 30, 2012.

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

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, 2011. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowance 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 were written off in prior years.

6. Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The Town's Enterprise Fund inventory consists of materials and supplies held for subsequent use. The cost of these inventories are expensed when consumed rather than when purchased.

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, buildings, improvements, equipment, vehicles, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$ 50,000. 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimate Useful Lives</u>
Buildings	40
Infrastructure	50
Improvements	15
Vehicles	5
Furniture and equipment	7-10
Computer equipment	3

8. 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line 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 discount. 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

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned, with the exception of law enforcement officers, where there is no limit on the amount of accumulation. For the Town's proprietary funds, an expense and a liability for compensated absences and the salary-related payments are

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

recorded within the funds as the leave is earned. The City has assumed a last-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 a maximum accrual of sick leave of 30 days. 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 has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave had been made.

10. Net Assets / Fund Balances

Net Assets

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of three 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:

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.

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

The Town of Warrenton has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Town Administrator will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, town 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 Town Administrator has the authority to deviate from this policy if it is in the best interest of the Town.

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit in Fund Balance or Net Assets of Individual Funds

For the fiscal year ended June 30, 2012, the Wastewater Treatment Fund had a deficit in Net Assets of \$140,621. This will be addressed in fiscal year 2012-2013.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2012, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for debt service by \$5,264. This over-expenditure occurred because a loan was budgeted according to the way it has been paid in the past and broken down between the general fund and the enterprise funds. This however, was the final year of the payment and the enterprise fund did not have a remaining loan balance as high as the appropriated amount. Management and the Board will more closely review the budget reports to ensure compliance in future years.

III. DETAIL NOTES ON ALL FUNDS

A. Assets

1. 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 these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, 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.

At June 30, 2012, the Town's deposits had a carrying amount of \$ 604,384 and a bank balance of \$467,876. Of this bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2012, the Town's petty cash fund totaled \$156.

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

2. Investments

As of June 30, 2012, the Town of Warrenton had \$41,414 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit risk rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables

The amounts presented in the Balance Sheet and the Statement of Net assets are as follows:

<u>FUND</u>	<u>6/30/2012</u>	
General Fund:		
Taxes Receivable	\$ 49,041	
Receivable from the County	2,487	
Accounts Receivable	25,133	
Franchise Tax Receivable	18,987	
Accrued Interest Receivable	12,844	
Grant Receivable	11,003	
Sales Tax Receivable	<u>14,966</u>	
Total General Fund		\$ 134,461
Enterprise Fund:		
Accounts receivable		<u>165,464</u>
Total All Funds		<u>\$ 299,925</u>

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Governmental activities</u>					
Capital assets not being depreciated:					
Land	\$ 1,000				\$ 1,000
Capital Assets being depreciated:					
Buildings	24,111				24,111
Equipment	147,261				147,261
Vehicles	<u>415,736</u>	-	<u>6,500</u>	-	<u>422,236</u>
Total capital assets being depreciated	587,108		6,500		593,608
Less accumulated depreciation for:					
Buildings	17,933	409			18,342
Equipment	119,768	7,022			126,790
Vehicles	<u>282,749</u>	<u>45,620</u>	<u>6,500</u>	-	<u>334,869</u>
Total accumulated depreciation	420,450	53,051	6,500		480,001
Total capital assets being depreciated, net	<u>166,658</u>				<u>113,607</u>
Government activity capital assets, net	<u>\$167,658</u>				<u>\$ 114,607</u>

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

General government	\$ 409
Public Safety	39,564
Transportation	<u>13,078</u>
Total depreciation expense	\$ 53,051

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

<u>Business-type activities</u>	<u>Beginning Balances</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Ending Balances</u>
Enterprise Fund:					
Capital assets not being depreciated:					
Land	\$ 5,250				\$ 5,250
Construction in progress	<u>118,123</u>	<u>100,231</u>		<u>167,054</u>	<u>51,300</u>
Total assets not being depreciated	123,373	100,231		167,054	56,550
 Capital Assets being depreciated:					
Building renovations	160,232				160,232
Improvements	0	167,054			167,054
Furniture & Equipment	292,322	23,619			315,941
Vehicles	203,950		(6,500)		197,450
Water & Sewer lines	<u>5,263,471</u>	-	-	-	<u>5,263,471</u>
Total capital assets being depreciated	5,919,975	190,673	6,500		6,104,148
 Less accumulated depreciation for:					
Building renovations	18,252	4,006			22,258
Improvements		4,448			4,448
Furniture & Equipment	173,900	23,725			197,625
Vehicles	127,947	20,679	(6,500)		142,126
Water & Sewer Lines	<u>1,618,971</u>	<u>210,943</u>	-	-	<u>1,829,914</u>
Total accumulated depreciation	1,939,070	263,801			2,196,371
Total capital assets being depreciated, net	3,980,905				<u>3,907,777</u>
Enterprise Fund capital assets, net	<u>\$ 4,104,278</u>				<u>\$ 3,964,327</u>

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Construction commitments

The government has active construction projects as of June 30, 2012. At year-end, the government's commitments with contractors are as follows:

B.	Project	Spent-to-date	Remaining Commitment
	Water and Sewer Projects	51,300	448,700

Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Warrenton contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the state of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing 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 an actuarially determined rate. For the Town, the current rate for employees engaged in law enforcement is 11.46% and 6% respectively, of annual covered payroll. The contribution requirements of members and of the Town of Warrenton is established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2012, 2011 and 2010 were \$15,655, \$15,719 and \$12,908, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description.*

The Town of Warrenton administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service.

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>4</u>
Total	5

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenses are paid as they come due.

3. *Contributions.*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the pay benefit payments and administration costs on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The Town has chosen not to have an actuarial study performed because the liability is considered to be immaterial.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Contributions for the year ended June 30, 2012 were \$ 6,720.

d. Simple IRA

Effective July 1, 2008, the Town set up a Simple IRA for employees not in law enforcement. For those employees who participate in the Simple IRA plan, the Town provides a 3% match. Retirement expense for the Town for the Years ended June 30, 2012, 2011 and 2010, was \$11,197, \$11,180 and \$10,955, respectively.

2. Deferred Revenues / Unearned Revenues

The balance in deferred / unearned revenues at year-end is composed of the following elements:

	<u>Deferred Revenue</u>
Taxes Receivable	<u>\$49,041</u>

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. The Town has made the decision not to purchase flood insurance at this time. The Town does not deem the risk of flooding to outweigh the cost of 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 Town Administrator is bonded for \$50,000 and the Town Clerk is bonded for \$50,000. The remaining employees that have access to funds are bonded for \$5,000 each.

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

4. Claims, Judgments and Contingent Liabilities

According to the Town's attorney, there are no suits pending against the Town that would materially affect the financial statements.

5. Long-Term Obligations

a. Capital Leases

The Town has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

An agreement was executed on October 24, 2004 for \$60,165 to lease a backhoe and leaf machine. This agreement requires 7 annual payments of \$ 9,920.60, including interest at 3.72% per annum. This lease was paid off in the current fiscal year.

An agreement was executed on March 22, 2007 for \$143,000 to purchase new sewer lines. This agreement requires fifteen annual payments of \$12,834.61, including interest at 3.97% per annum.

An agreement was executed on July 15, 2008 for \$76,000 to purchase a police car, a tractor, and a bush hog. This agreement requires four annual payments of \$20,597.84, including interest at 3.31% per annum.

An agreement was executed on August 5, 2009 for \$50,885 to purchase 2 police cars. This agreement requires three annual payments of \$18,280.68, including interest at 3.84% per annum.

An agreement was executed on November 20, 2009 for \$26,535.73 to purchase a police car. This agreement requires three annual payments of \$9,469.70, including interest at 3.49% per annum.

An agreement was executed on January 28, 2010 to purchase two Ford trucks. This agreement requires three annual payments of \$21,604.50, including interest at 3.96% per annum.

An agreement was executed on October 20, 2010 to purchase a leaf collection truck. This agreement requires five annual payments of \$11,044.60, including interest at 3.73% per annum.

An agreement was executed on October 20, 2010 to purchase a Ford F250 truck. This agreement requires three annual payments of \$10,905.18, including interest at 3.58% per annum.

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

The following is an analysis of the assets recorded under capital leases at June 30, 2012:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Vehicles	\$ 256,148	\$ 152,214	\$ 103,934
Equipment	\$ 101,785	\$ 46,186	\$ 55,599

The future minimum lease obligations and the net present value of these lease payments as of June 30, 2012 were as follows:

<u>YEAR ENDING JUNE 30</u>	<u>GENERAL LONG- TERM DEBT</u>	<u>WATER AND SEWER FUND</u>
2013	55,480	49,259
2014	16,915	17,869
2015	16,914	6,964
2016	16,914	6,965
2017	5,870	10,491
2018-2022	29,346	31,294
Total minimum lease payments	<u>141,439</u>	<u>122,842</u>
Less: amount representing interest	<u>(16,379)</u>	<u>(15,132)</u>
Present value of minimum lease payments	<u>\$ 125,060</u>	<u>\$ 107,710</u>

**TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

b. Changes in Long-Term Liabilities

	General Long-term Debt Balance 7-1-11	<u>Additions</u>	<u>Retirements</u>	General Long-term Debt Balance 6-30-12	Current Portion of Balance
<i>Governmental activities:</i>					
Capital Lease	\$ 183,568		\$ 58,508	\$ 125,060	\$ 50,544
Compensated absences	22,496	18,350	23,165	17,681	17,681
Governmental activity					
long-term liabilities	\$ 206,064	\$ 18,350	\$ 81,673	\$ 142,741	\$ 68,225
<i>Business-type activities:</i>					
Capital Lease	\$ 151,224		\$ 43,514	\$ 107,710	\$ 45,331
Compensated absences	21,339	11,845	15,317	17,867	15,317
Total business-type activities	\$ 172,563	\$ 11,845	\$ 58,831	\$ 125,577	\$ 60,648

C. Internal Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2012, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Wastewater Fund	196,496	Loan

Transfers to/from Other Funds:

Transfers to/from other funds at June 30, 2012, consist of the following:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Reason</u>
Wastewater Fund	General Fund	\$ 33,147	Operating transfer
Water Sewer	Wastewater Fund	\$ 222,175	Operating transfer

III. JOINTLY GOVERNED ORGANIZATION

The Kerr-Tarr Council of Government is a voluntary association of five county and 15 city and town governments, including the Town of Warrenton, established to coordinate federal and State projects of a planning nature in the five county area in central North Carolina. Each county, city, and town appoints one member to the Council's governing body and his governing body selects the management and determines the budget and financing requirements of the Council. The Town contributed \$ 371 to the Council during the fiscal year ended June 30, 2012.

**TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

IV. RESTATEMENT

In prior years, accrued salaries had not been recorded since they were not material. However, this fiscal year an accrual was recorded. It was deemed necessary to restate fund balance in order to record an accrual for payroll salaries for the prior year.

	Fund Balance as originally reported June 30, 2011	Restatement	Fund Balance as restated June 30, 2012
General Fund	488,486	(7,164)	481,322
Wastewater Treatment Fund	(147,617)	(2,947)	(150,564)
Water & Sewer Fund	4,293,108	(2,094)	4,291,014

V. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Town has received proceeds from State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreement. Such audits could result in the refund of grant monies 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 monies.

VI. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

The Town has evaluated events and transactions that occurred between June 30, 2012 and October 29, 2012, which is the date that the financials were available to be issued, for possible recognition or disclosure in the financial statements.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2012

(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012		VARIANCE POSITIVE (NEGATIVE)	2011
	BUDGET	ACTUAL		ACTUAL
REVENUES				
Ad valorem taxes				
Taxes	\$ 437,601	\$ 441,480	\$ -	\$ 438,574
Penalties and interest	1,000	3,274		1,192
Total	<u>438,601</u>	<u>444,754</u>	<u>6,153</u>	<u>439,766</u>
Other taxes and licenses:				
Local option sales taxes	143,500	146,550		144,416
ABC revenue	13,020	6,421		13,806
Privilege licenses	3,750	1,955		3,218
Total	<u>160,270</u>	<u>154,926</u>	<u>(5,344)</u>	<u>161,440</u>
Unrestricted intergovernmental revenues				
Utility franchise tax	81,100	75,885		89,215
Beer and wine tax	-	3,743		4,028
Sales tax refund	14,500	5,028		-
Motor fuels tax refunds	1,800	2,096		1,859
Total	<u>97,400</u>	<u>86,752</u>	<u>(10,648)</u>	<u>95,102</u>
Restricted intergovernmental revenues				
"State Street Aid" grant	26,980	27,085		27,475
Police CHRP grant	47,676	46,763		33,009
N C Highway safety grant	5,000	-		5,425
Total	<u>79,656</u>	<u>73,848</u>	<u>(5,808)</u>	<u>65,909</u>
Permits and fees				
Cable T.V. Franchise	1,339	501		1,531
Auto tags	-	40		-
Code enforcement	5,000	2,025		-
Parking enforcement	12,000	485		9,494
Zoning fees	300	440		205
Total	<u>\$ 18,639</u>	<u>\$ 3,491</u>	<u>\$ (15,148)</u>	<u>\$ 11,230</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012		VARIANCE POSITIVE (NEGATIVE)	2011
	BUDGET	ACTUAL		ACTUAL
Sales and Services				
Contract maintenance	\$ 150	\$ -	\$ -	\$ -
Landfill Fees	112,000	148,272		140,243
Cell tower rent	15,840	15,840		17,160
Household debris fee	42,880	-		-
Miscellaneous	9,500	17,483		12,926
Total	<u>180,370</u>	<u>181,595</u>	<u>1,225</u>	<u>170,329</u>
Investment earnings				
General Fund	200	123		190
Total	<u>200</u>	<u>123</u>	<u>(77)</u>	<u>190</u>
Total revenues	<u>\$ 975,136</u>	<u>\$ 945,489</u>	<u>\$ (29,647)</u>	<u>\$ 943,966</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2012

(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012		VARIANCE POSITIVE (NEGATIVE)	2011
	BUDGET	ACTUAL		ACTUAL
EXPENDITURES				
General Government				
Governing Body				
Salaries	\$ 1,500	\$ 1,625	\$ -	\$ 1,500
Operating Expenses	1,207	1,493		805
Total	<u>2,707</u>	<u>3,118</u>	<u>(411)</u>	<u>2,305</u>
Administration				
Salaries and employee benefits	136,653	134,051		114,265
Other operating expenditures	85,896	69,748		69,291
Administrative fee paid by Water and Sewer	(51,840)	(51,109)		(49,569)
Total	<u>170,709</u>	<u>152,690</u>	<u>18,019</u>	<u>133,987</u>
Total general government	<u>173,416</u>	<u>155,808</u>	<u>17,608</u>	<u>136,292</u>
Public Safety				
Police				
Salaries and employee benefits	352,320	283,285		292,053
Capital outlay	-	-		-
Other operating expenditures	113,599	127,141		174,759
Total	<u>465,919</u>	<u>410,426</u>	<u>55,493</u>	<u>466,812</u>
Fire				
Salaries and employee benefits	9,852	5,190		-
Other operating expenditures	71,250	69,904		67,985
Total	<u>81,102</u>	<u>75,094</u>	<u>6,008</u>	<u>67,985</u>
Total public safety	<u>\$ 547,021</u>	<u>\$ 485,520</u>	<u>\$ 61,501</u>	<u>\$ 534,797</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012		VARIANCE POSITIVE (NEGATIVE)	2011
	BUDGET	ACTUAL		ACTUAL
Transportation and Utilities				
Street Repair and Construction				
Salaries and employee benefits	\$ 57,440	\$ 57,162		\$ 48,429
Capital outlay	-	-		49,639
Operating expenses	97,412	88,694		54,231
Total	<u>154,852</u>	<u>145,856</u>	<u>8,996</u>	<u>152,299</u>
Total transportation and utilities	<u>154,852</u>	<u>145,856</u>	<u>8,996</u>	<u>152,299</u>
Environmental Protection				
Sanitation				
Salaries and employee benefits	54,348	53,416		68,309
Other operating expenditures	37,367	37,429		35,675
Landfill Fees	-	-		-
Total	<u>91,715</u>	<u>90,845</u>	<u>870</u>	<u>103,984</u>
Total environmental protection	<u>91,715</u>	<u>90,845</u>	<u>870</u>	<u>103,984</u>
Debt Service				
Principal	51,688	58,508		69,475
Interest	8,438	6,882		7,845
Total	<u>60,126</u>	<u>65,390</u>	<u>(5,264)</u>	<u>77,320</u>
Total expenditures	<u>1,027,130</u>	<u>943,419</u>	<u>83,711</u>	<u>1,004,692</u>
Revenues over (under) expenditures	<u>\$ (51,994)</u>	<u>\$ 2,070</u>	<u>\$ 54,064</u>	<u>\$ (60,726)</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2012

(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012		VARIANCE POSITIVE (NEGATIVE)	2011
	BUDGET	ACTUAL		ACTUAL
Other Financing Sources (uses)				
Installment Purchase Obligations Issued	-	-	-	49,543
Sale of capital assets	-	2,013	2,013	-
Transfers	33,476	33,147	(329)	28,972
Fund balance appropriated	18,518	-	(18,518)	-
	<u>51,994</u>	<u>35,160</u>	<u>(16,834)</u>	<u>78,515</u>
Total other financing sources (uses)				
	<u>51,994</u>	<u>35,160</u>	<u>(16,834)</u>	<u>78,515</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>37,230</u>	<u>\$ 37,230</u>	<u>17,789</u>
FUND BALANCE, BEGINNING, AS RESTATED		<u>481,322</u>		<u>470,697</u>
FUND BALANCE, ENDING		<u>\$ 518,552</u>		<u>\$ 488,486</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
WASTEWATER TREATMENT FUND
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Actual Totals for the Year Ended June 30, 2011)

	2012		VARIANCE POSITIVE (NEGATIVE)	2011
	BUDGET	ACTUAL		ACTUAL
REVENUES:				
Charges for services:				
Wastewater Treatment	\$ 304,663	\$ 258,515	\$ (46,148)	\$ 265,142
Total operating revenues	304,663	258,515	(46,148)	265,142
NONOPERATING REVENUES				
Miscellaneous	12,000	29,289	17,289	28,054
Total Nonoperating Revenues	12,000	29,289	17,289	28,054
Total Revenues	316,663	287,804	(28,859)	293,196
OPERATING EXPENSES				
Salaries and benefits	184,550	164,302	20,248	218,037
Audit	6,000	5,890	110	5,842
Telephone and postage	5,000	4,576	424	4,851
Freight	3,800	4,878	(1,078)	3,204
Office supplies	1,600	1,304	296	1,180
Light and Heat	52,000	50,708	1,292	49,550
Materials and supplies	51,700	50,911	789	46,103
Vehicle maintenance	2,500	2,506	(6)	2,433
Certified lab expense	3,200	2,477	723	2,321
Truck expense	6,000	6,500	(500)	6,416
Insurance and bonds	28,329	26,476	1,853	27,127
Equipment and plant maintenance	60,000	45,708	14,292	31,361
Uniforms	5,500	4,414	1,086	4,480
Sludge hauling	75,000	58,660	16,340	47,161
Kerr-Pamlico Basin Association	1,000	2,934	(1,934)	-
Permits & Fees	7,000	3,603	3,397	5,374
Beaver control	2,000	2,000	-	2,000
OSHA Compliance	600	1,610	(1,010)	107
Lab Analysis	18,500	16,585	1,915	15,982

The accompanying notes are an integral part of the financial statements

EXHIBIT B-1

**TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
WASTEWATER TREATMENT FUND
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Actual Totals for the Year Ended June 30, 2011)**

	2012		VARIANCE POSITIVE (NEGATIVE)	2011
	BUDGET	ACTUAL		ACTUAL
Miscellaneous	9,999	2,197	7,802	2,864
Installment financing payments	-	-	-	-
Capital outlay	-	12,672	(12,672)	7,300
Contingency	10,000	-	10,000	-
Contract maintenance	4,400	2,209	2,191	2,819
Continuing education	500	-	500	105
Total	<u>539,178</u>	<u>473,120</u>	<u>66,058</u>	<u>486,617</u>
OTHER FINANCING SOURCES (USES)				
Transfer to General Fund	-	(33,147)	(33,147)	(28,972)
Transfer to Capital Projects	(29,773)	-	29,773	-
Transfer from Water Fund	252,288	222,175	(30,113)	215,139
Fund balance appropriated	-	-	-	0
Total Other Financing Sources (Uses)	<u>222,515</u>	<u>189,028</u>	<u>(33,487)</u>	<u>186,167</u>
Revenues and other sources				
over (under) expenses	<u>\$ -</u>	<u>\$ 3,712</u>	<u>\$ 3,712</u>	<u>\$ (7,254)</u>
Reconciliation of modified accrual basis to full accrual basis:				
Excess of Revenues over (under) Expenditures		3,712		(7,254)
Payments to Wastewater		-		-
Capital Outlay		12,672		7,300
Principal retirements		-		-
Depreciation		<u>(6,441)</u>		<u>(5,625)</u>
Net Income		<u>\$ 9,943</u>		<u>\$ (5,579)</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
WATER AND SEWER FUND
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Actual Totals for the Year Ended June 30, 2011)

	2012		VARIANCE POSITIVE (NEGATIVE)	2011
	BUDGET	ACTUAL		ACTUAL
REVENUES:				
Charges for services:				
Water and sewer sales	\$ 1,062,893	\$ 1,020,955	\$ (41,938)	\$ 1,032,780
Water and sewer taps	7,000	5,304	(1,696)	13,007
Capital reserve revenue	0	15	15	3,733
Total operating revenues	<u>1,069,893</u>	<u>1,026,274</u>	<u>(43,634)</u>	<u>1,049,520</u>
NONOPERATING REVENUES				
Miscellaneous Revenue	800	127	673	758
Interest earned	100	645	545	583
Total nonoperating revenues	900	772	1,218	1,341
Total Revenues	<u>1,070,793</u>	<u>1,027,046</u>	<u>(42,416)</u>	<u>1,050,861</u>
OPERATING EXPENSES				
Salaries and benefits	156,343	160,622	(4,279)	122,134
Water purchases	207,900	203,660	4,240	193,985
Administrative fee	48,150	51,109	(2,959)	49,569
Audit	6,000	5,891	109	5,842
Equipment maintenance	34,300	13,623	20,677	18,128
Water tank maintenance	16,191	14,685	1,506	14,174
Building maintenance	800	2,098	(1,298)	636
Contracted services	45,000	35,375	9,625	33,822
Insurance and bonds	31,127	29,291	1,836	27,916
Group insurance	33,157	28,284	4,873	23,407
Departmental supplies & materials	60,460	28,046	32,414	57,789
Telephone and postage	11,500	10,215	1,285	9,738
Freight	1,500	1,754	(254)	2,372
Office supplies	8,000	6,832	1,168	2,985
Lights & heat	10,750	7,399	3,351	8,743
Advertising	-	2,057	(2,057)	-
Miscellaneous	1,500	6,315	(4,815)	7,924
Truck expense	14,282	21,038	(6,756)	16,848
Continuing Education	2,000	2,171	(171)	1,209
Contingency	16,108	-	16,108	-
Travel	600	688	(88)	97
Installment financing payments	50,296	43,514	6,782	45,665
Capital Outlay	28,800	10,947	17,853	53,107
EnviroLink	12,500	12,000	500	11,619
Dues & permits	5,900	3,162	2,738	3,920
Total	<u>\$ 803,164</u>	<u>\$ 700,776</u>	<u>\$ 102,388</u>	<u>\$ 711,629</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
WATER AND SEWER FUND
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Actual Totals for the Year Ended June 30, 2011)

	2012		VARIANCE POSITIVE (NEGATIVE)	2011
	BUDGET	ACTUAL		ACTUAL
OTHER FINANCING SOURCES (USES):				
Transfer to Wastewater Fund	(261,836)	(222,175)	39,661	(215,139)
Interest Expense	(5,793)	(5,793)	-	(6,307)
Proceeds of capital lease	-	-	-	30,505
Proceeds of sale of equipment	-	2,188	2,188	-
Fund balance appropriated	-	-	-	-
Total Financing Sources (Uses)	<u>(267,629)</u>	<u>(225,780)</u>	<u>39,661</u>	<u>(190,941)</u>
Total Expenditures	<u>1,070,793</u>	<u>926,556</u>	<u>142,049</u>	<u>902,570</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	100,490	<u>\$ 100,490</u>	148,291
Reconciliation from budgetary basis (modified accrual) to full accrual basis:				
Revenues and other Sources over Expenditures and other uses		100,490		148,291
Budgetary Appropriations:				
Capital Outlay		111,178		241,981
Transfer to Water & Sewer Capital Projects Water & Sewer Capital Projects revenues over (under) expenditures		(31,971)		(7,543)
Principal Retirements		43,514		45,665
Proceeds of capital lease		-		(30,505)
Transfer to Wastewater				
Depreciation		<u>(257,360)</u>		<u>(243,282)</u>
Net Income		<u>\$ (34,149)</u>		<u>\$ 154,607</u>

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP)
CAPITAL PROJECTS FUND

From Inception and For the Fiscal Year Ended June 30 2012

	PROJECT AUTHORIZATION	PRIOR YEARS	ACTUAL		VARIANCE POSITIVE (NEGATIVE)
			CURRENT YEAR	TOTAL TO DATE	
Revenues:					
North Carolina Rural Economic Development Center Inc:					
Ridgeway Street Sidewalk	\$ 119,359	\$ 96,038	\$ 12,260	\$ 108,298	\$ (11,061)
Norwood Cummings	56,000	-	56,000	56,000	-
Sewer System Rehab	250,000	-	-	-	(250,000)
Total Revenues	<u>425,359</u>	<u>96,038</u>	<u>68,260</u>	<u>164,298</u>	<u>(261,061)</u>
Expenditures:					
Ridgeway Sidewalk Project	119,359	96,713	14,341	111,054	8,305
Norwood Cummings	56,000	-	56,000	56,000	-
Sewer System Rehab	500,000	21,410	29,890	51,300	448,700
Total Expenditures	<u>675,359</u>	<u>118,123</u>	<u>100,231</u>	<u>218,354</u>	<u>457,005</u>
Revenues over (under) Expenditures	(250,000)	(22,085)	(31,971)	(54,056)	195,944
Other Financing Sources (Uses)					
Transfer from General Fund	-	27,889	-	27,889	27,889
Transfer from Water & Sewer Funds	-	94,067	-	94,067	94,067
Transfer from Waste Water Treatment	-	58,231	-	58,231	58,231
Transfer from Special Revenue Fund	-	(3,397)	-	(3,397)	(3,397)
Installment purchase obligation issued	250,000	-	-	-	(250,000)
Total Other Financing Sources (Uses)	<u>250,000</u>	<u>176,790</u>	<u>-</u>	<u>176,790</u>	<u>(73,210)</u>
Revenues & Other Sources					
Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ 154,705</u>	<u>\$ (31,971)</u>	<u>\$ 122,734</u>	<u>\$ 122,734</u>

The accompanying notes are an integral part of the financial statements

OTHER SCHEDULES

EXHIBIT C-1

TOWN OF WARRENTON, NORTH CAROLINA
 SCHEDULE OF AD VALOREM TAXES RECEIVABLE
 June 30, 2012

FISCAL YEAR	UNCOLLECTED BALANCE June 30, 2011	ADDITIONS	COLLECTIONS	ABATEMENTS & ADJUSTMENTS	UNCOLLECTED BALANCE June 30, 2012
2011 - 2012	\$ -	\$ 443,820	\$ 423,272	\$ -	\$ 20,548
2010 - 2011	36,333		14,208	12,170	9,955
2009 - 2010	4,547		2,124	-	2,423
2008 -2009	3,699		1,168	-	2,531
2007 - 2008	2,667		112	-	2,555
2006 - 2007	2,229		109	-	2,120
2005 - 2006	2,447		109	1	2,337
2004 - 2005	2,293		109	15	2,169
2003 - 2004	1,832		89	165	1,578
2002 - 2003	1,672		89	-	1,583
2001 - 2002	1,331		90	(1)	1,242
	<u>\$ 59,050</u>	<u>\$ 443,820</u>	<u>\$ 441,479</u>	<u>\$ 12,350</u>	<u>\$ 49,041</u>

Reconcilement with revenues:

Total Taxes Collected	\$ 444,753
Interest Collected	<u>(3,274)</u>
Ad-Valorem Taxes Collected	<u>\$ 441,479</u>

TOWN OF WARRENTON, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2012

Warrenton Township	Town - Wide			Total Levy	
	Property Valuation	Rate per \$100	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at					
Current Year Rate	\$ 65,576,786	0.61	\$ 400,018	\$ 400,018	\$ -
Less old age exemption	(885,020)	0.61	(5,399)	(5,399)	-
Registered motor vehicles	4,314,300	0.61	26,318		\$ 26,318
Total Levy	69,006,066		420,937	394,619	26,318
Discoveries	4,056,066	0.61	24,742	24,742	-
Abatements	(304,754)	0.61	(1,859)	(1,859)	-
Total Property Valuation	<u>\$ 72,757,378</u>		443,820	417,502	26,318
Less: Uncollected Tax at June 30, 2012			(20,548)	(16,634)	(3,914)
Current Year Taxes Collected			<u>\$ 423,272</u>	<u>\$ 400,868</u>	<u>\$ 22,404</u>
Current Levy Collection %			<u>95.37%</u>	<u>96.02%</u>	<u>85.13%</u>

COMPLIANCE SECTION

Winston, Williams, Creech, Evans, & Company, LLP

Certified Public Accountants



America Counts on CPAs

James P. Winston II, CPA
Gary L. Williams, CPA
Carleen P. Evans, CPA

Jennifer T. Reese, CPA
Curtis G. Van Horne, CPA
Cathy E. McKinley, CPA
Tara H. Roberson, CPA
David B. Jernigan, CPA

Report on Compliance and On Internal Control Over Financial Reporting Based On An Audit of financial Statements Performed In Accordance with Government Auditing Standards

Honorable Mayor and Board of Commissioners
Town of Warrenton

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Warrenton, North Carolina, as of and for the year ended June 30, 2012, which collectively comprises the Town of Warrenton's basic financial statements, and have issued our report thereon dated October 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency exists when designed or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over reporting. A material weakness is a significant deficiency, or

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 12-1, 12-2 and 12-3 as material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Warrenton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 12-1, 12-2, and 12-3.

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

This report is intended solely for the information and use of the audit committee, management, others within the entity, members of the Town Council, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Winston, Williams, Creech, Evans & Co., LLP

October 24, 2012

**TOWN OF WARRENTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant Deficiency(s) identified that are not considered
to be material weakness Yes x None reported

Noncompliance material to financial statemen Yes x No

B. Financial Statement Findings

12-1 Segregation of Duties

MATERIAL WEAKNESS

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

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

Effect: Transactions could be mishandled.

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

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

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

12-2 Preparation of Financial Statements

MATERIAL WEAKNESS

Criteria: Management staff should have adequate knowledge to be able to prepare the financial statements to ensure material errors are detected.

Condition: There is limited knowledge of management staff in preparation of the Town's financial statements.

**TOWN OF WARRENTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Effect: Financial statements could be presented with material misstatements.

Cause: Management has limited knowledge regarding GAAP and its application to the financial statements.

Recommendation: Management should obtain additional training to become proficient with the rules of GAAP and its application to the financial statements.

Views of responsible officials and planned corrective actions: The Town agrees with this finding. Additional training will be sought for management personnel.

12-3 Excess of Expenditures over Appropriations

MATERIAL WEAKNESS

Criteria: management staff should have adequate knowledge to maintain expenditures within budgeted amounts.

Condition: There was an are of significant expenditure over the budgeted amount.

Effect: The Town's fund balance could fall lower than anticipated.

Cause: Budget to actual amounts were not examined on an ongoing monthly basis.

Recommendation: Management should compare budget to actual expenditures on a monthly basis.

Views of responsible officials and planned corrective actions: The Town agrees with this finding. Additional testing will be performed each month.

**TOWN OF WARRENTON
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2012**

Section II - Financial Statement Findings

MATERIAL WEAKNESS

12-1 Segregation of Duties

Name of Contact Person: Bettie Davis, Town Clerk

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

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

MATERIAL WEAKNESS

12-2 Preparation of financial Statements

Name of Contact Person: Bettie Davis, Town Clerk

Corrective Action: Management personnel will obtain additional training to enhance their knowledge of GAAP and the preparation of the financial statements.

Proposed Completion Date: The management personnel will obtain additional training during fiscal year 12-13.

MATERIAL WEAKNESS

12-3 Excess of Expenditures over Appropriations

Name of Contact Person: Bettie Davis, Town Clerk

Corrective Action: Management will compare actual expenditures to budgeted amounts on a monthly basis.

Proposed Completion Date: Management will implement this procedure immediately.

**TOWN OF WARRENTON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Prior Year Audit Findings:

Financial Statement Audit Findings

Finding 11-1:

The Town continues to try to keep duties separated among personnel as much as possible.

Finding 11-2:

The Town continues to try to obtain additional knowledge concerning preparation of financial statements.

Finding 11-3:

The Town continues to monitor the budget on a monthly basis to make sure that expenditures do not exceed budget appropriations.