

FINANCIAL STATEMENTS
TOWN OF WARRENTON
WARRENTON, NORTH CAROLINA
JUNE 30, 2014

BOARD OF COMMISSIONERS

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Robert Davie - Town Administrator

Meredith Valentine - Finance Director

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**PETWAY
MILLS &
PEARSON, PA**

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Management
AssociationTo the Honorable Mayor
And Board of Commissioners
Town of Warrenton, North Carolina**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Warrenton, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Warrenton's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Warrenton, North Carolina as of June 30, 2014, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 7 through 17, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an

appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Warrenton, North Carolina's basic financial statements. The budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by *Government Auditing Standards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014 on our consideration of the Town of Warrenton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Warrenton's internal control over financial reporting and compliance.


PETWAYMILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

December 22, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

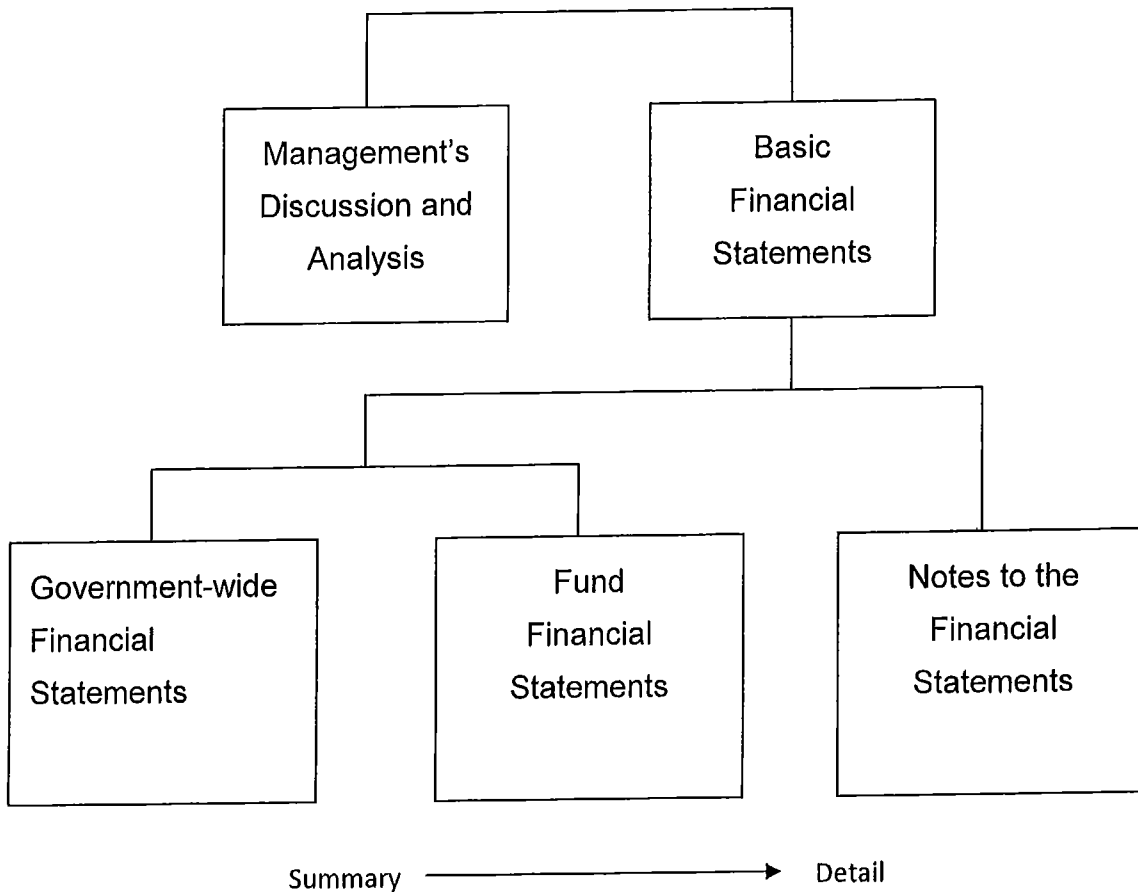
- The assets and deferred outflows of resources of the Town of Warrenton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$4,807,414 (*net position*).
- The government's total net position increased by \$119,902, primarily due to increases in the government-type activities net position and includes a prior period adjustment of \$8,500.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$750,849 an increase of \$136,347 in comparison with the prior year. Approximately 38.42 percent of this total amount, or \$288,454, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$462,395, or 45.92 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 9) 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 position and how they have changed. Net position is the difference between the Town's total assets and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as 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 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of 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 Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of 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 budget my statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – 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 an enterprise fund to account for its water and sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 27-42 of this report

Government-Wide Financial Analysis

The Town of Warrenton's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 838,850	\$ 699,021	\$ 600,622	\$ 548,808	\$ 1,439,472	\$ 1,247,829
Capital assets	141,567	74,982	4,066,215	3,857,079	4,207,782	3,932,061
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	980,417	774,003	4,666,837	4,405,887	5,647,254	5,179,890
Long-term liabilities outstanding	136,112	60,488	360,902	166,663	497,014	227,151
Other liabilities	68,722	64,634	274,104	200,593	342,826	265,227
Deferred inflows of resources	-	-	-	-	-	-
Total liabilities and deferred inflows of resources	204,834	125,122	635,006	367,256	839,840	492,378
Net position:						
Net investment in capital assets	(13,031)	464	3,680,648	3,769,051	3,667,617	3,769,515
Restricted	288,454	375,196	-	-	288,454	375,196
Unrestricted	500,160	273,221	351,183	269,580	851,343	542,801
Total net position	\$ 775,583	\$ 648,881	\$ 4,031,831	\$ 4,038,631	\$ 4,807,414	\$ 4,687,512

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Warrenton exceeded liabilities and deferred inflows by \$4,807,414 as of June 30, 2014. The Town of Warrenton's net position increased by \$119,902 for the fiscal year ended June 30, 2014. However, the largest portion (76.22%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). 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 net 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 position, \$288,454, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$851,343 is unrestricted.

One aspect of the Town's financial operations positively influenced the total unrestricted net position:

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 96.63%, which is comparable to the statewide average of 97.42%.

Town of Warrenton Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue:						
Program revenues:						
Charges for services	\$ 166,106	\$ 169,189	\$ 1,546,974	\$ 1,329,471	\$ 1,713,080	\$ 1,498,660
Operating grants and contributions	71,944	77,542	-	-	71,944	77,542
Capital grants and contributions	-	-	249,350	25,650	249,350	25,650
General revenues:						
Property taxes	457,045	442,652	-	-	457,045	442,652
Other taxes	246,765	274,598	-	-	246,765	274,598
Grants and contributions not restricted to specific programs	-	-	-	-	-	-
Other	98,296	14,849	1,027	39,985	99,323	54,831
Total revenue	1,040,156	978,830	1,797,351	1,395,106	2,837,507	2,373,931
Expenses:						
General government	184,183	153,266	-	-	184,183	153,266
Public safety	468,061	492,127	-	-	468,061	492,127
Highway and streets	167,122	171,429	-	-	167,122	171,429
Economic and physical development	-	-	-	-	-	-
Environmental protection	89,553	91,150	-	-	89,553	91,150
Interest on long-term debt	4,535	3,119	-	-	4,535	3,119
Water and sewer	-	-	1,812,651	1,440,829	1,812,651	1,440,829
Total expenses	913,454	911,091	1,812,651	1,440,829	2,726,105	2,351,921
Increase in net position before transfers	126,702	67,739	(15,300)	(45,723)	97,652	22,010
Transfers	-	31,890	-	(31,890)	-	-
Prior period adjustment	-	-	8,500	-	8,500	-
Net increase in net position	126,702	99,629	(15,300)	(77,613)	111,402	22,010
Net position, July 1	648,881	549,252	4,038,631	4,116,244	4,687,512	4,665,452
Net position, June 30	\$ 775,583	\$ 648,881	\$ 4,031,831	\$ 4,038,631	\$ 4,807,414	\$ 4,687,512

Governmental activities. Governmental activities increased the Town's net position by \$126,702, thereby accounting for 100% of the total growth in the net position of the Town of Warrenton. Though a recession affected the Town, the increase in net position was the result of a concerted effort to control cost and manage expenditures to minimize the impact of the recession on its citizens. Town management reduced non-essential programs to a minimum and implemented cost saving strategies across Town departments. Increased efforts to maximize tax collections also contributed to the favorable net position. Though many of the Town's residents were hit hard by the recession, tax revenue did not appreciably decline in the current year. Town management acknowledges that 2014 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

Business-type activities: Business-type activities decreased the Town of Warrenton's net position by \$15,300.

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.

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 \$533,767, while total fund balance reached \$750,849. 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 52.94% of general fund expenditures, while total fund balance represents 74.56% 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.

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 position of the Wastewater Treatment Fund at the end of the fiscal year amounted to (\$70,195), and that for the Water and Sewer Fund amounted to \$421,378. The total change in net position for both funds was \$87,074 and \$(102,374) 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, 2014, totals \$4,207,782 (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):

- Reroofing the Town Hall in the amount of \$149,449.
- Completion of the Sewer System rehabilitation project in the amount of \$398,225.

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

(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,000	\$ 1,000	\$ 5,250	\$ 5,250	\$ 6,250	\$ 6,250
Buildings and system	4,953	5,360	129,962	133,968	134,915	139,328
Improvements	99,449	-	213,718	170,781	313,167	170,781
Water & Sewer Lines	-	-	3,599,274	3,222,614	3,599,274	3,222,614
Machine and equipment	14,449	17,368	76,304	98,362	90,753	115,730
Vehicles and motorized equipment	21,716	51,254	41,707	34,757	63,423	86,011
Construction In progress	-	-	-	191,347	-	191,347
Total	\$ 141,567	\$ 74,982	\$ 4,066,215	\$ 3,857,079	\$ 4,207,782	\$ 3,932,061

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

Long Term Debt

As of June 30, 2014 the Town had total debt outstanding of \$540,165. Of this \$540,165 is debt backed by the full faith and credit of the Town

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue is 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin of the Town of Warrenton is \$5,231,911.

Additional information regarding the Town of Warrenton's long-term debt can be found in Note III.B.5 of this report

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 8.2% at June 30, 2014, which is much higher than the state average of 6.3%.

Budget Highlights for the Fiscal Year Ending June 30, 2015

Governmental Activities:

Property Tax rates will remain unchanged.

Business - type Activities:

The Water & Sewer rates will remain unchanged.

Requests for Information

This report is designed to provide an overview of the Town of Warrenton finances for those with an interest in the 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, PO Box 281, Warrenton, NC 27589.

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Exhibit 1

Town of Warrenton
Statement of Net Position
June 30, 2014

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 495,459	\$ 363,006	\$ 858,465
Restricted cash	71,372	87,585	158,957
Taxes receivables (net)	43,096	-	43,096
Accrued interest receivable	11,841	-	11,841
Accounts receivable (net) - trade	11,500	134,623	146,123
Due from other governments	109,086	54,817	163,903
Notes receivable	-	12,484	12,484
Due from other funds	96,496	(96,496)	-
Inventories	-	44,603	44,603
Total current assets	<u>838,850</u>	<u>600,622</u>	<u>1,439,472</u>
Capital assets:			
Land, non-depreciable improvements, and construction in progress	1,000	5,250	6,250
Other capital assets, net of depreciation	<u>140,567</u>	<u>4,060,965</u>	<u>4,201,532</u>
Total capital assets	<u>141,567</u>	<u>4,066,215</u>	<u>4,207,782</u>
Total assets	<u>\$ 980,417</u>	<u>\$ 4,666,837</u>	<u>\$ 5,647,254</u>
LIABILITIES			
Current liabilities:			
Accounts payable - trade	\$ 20,482	\$ 122,866	\$ 143,348
Accrued payroll	12,582	22,799	35,381
Accrued interest payable	1,242	-	1,242
Deposits held	-	87,585	87,585
Long-term liabilities:			
Due within one year	34,416	40,854	75,270
Due in more than one year	<u>136,112</u>	<u>360,902</u>	<u>497,014</u>
Total liabilities	<u>204,834</u>	<u>635,006</u>	<u>839,840</u>
NET POSITION			
Net investment in capital assets	(13,031)	3,680,648	3,667,617
Restricted for:			
Streets	71,372	-	71,372
Stabilization by State Statute	217,082	-	217,082
Unrestricted	<u>500,160</u>	<u>351,183</u>	<u>851,343</u>
Total net position	<u>\$ 775,583</u>	<u>\$ 4,031,831</u>	<u>\$ 4,807,414</u>

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

Town of Warrenton
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Primary Government	
								Operating	
Primary government:									
Governmental Activities:									
General government	\$ 184,183	\$ 2,655	\$ 31,874	\$ -	\$ (149,654)	\$ -	\$ (149,654)		
Public safety	468,061	733	12,572	-	(454,756)	-	(454,756)		
Transportation	167,122	-	27,498	-	(139,624)	-	(139,624)		
Environmental protection	89,553	162,718	-	-	73,165	-	73,165		
Interest on long-term debt	4,535	-	-	-	(4,535)	-	(4,535)		
Total governmental activities	913,454	166,106	71,944	-	(675,404)	-	(675,404)		
Business-type activities:									
Wastewater treatment	535,314	522,365	-	-	-	(12,949)	(12,949)		
Water and sewer	1,277,337	1,024,609	-	249,350	-	(3,378)	(3,378)		
Total business-type activities	1,812,651	1,546,974	-	249,350	-	(16,327)	(16,327)		
Total primary government	\$ 2,726,105	\$ 1,713,080	\$ 71,944	\$ 249,350	(675,404)	(16,327)	(691,731)		
General revenues:									
Taxes:									
Property taxes, levied for general purpose					457,045	-	457,045		
Other taxes					246,765	-	246,765		
Unrestricted investment earnings					158	1,027	1,185		
Miscellaneous					98,138	-	98,138		
Total general revenues					802,106	1,027	803,133		
Change in Net position					126,702	(15,300)	111,402		
Net position, beginning - previously reported					648,881	4,038,631	4,687,512		
Prior period adjustment					-	8,500	8,500		
Net position, beginning - as restated					648,881	4,047,131	4,696,012		
Net position, ending					775,583	4,031,831	4,807,414		

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

**Town of Warrenton
Balance Sheet
Governmental Funds
June 30, 2014**

	Major Funds		
	General		Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 495,459	\$	495,459
Restricted cash	71,372		71,372
Receivables, net:			
Taxes	43,096		43,096
Accounts - trade	11,500		11,500
Due from other funds	96,496		96,496
Due from other governments	109,086		109,086
Total assets	<u>\$ 827,009</u>	<u>\$</u>	<u>827,009</u>
LIABILITIES			
Liabilities:			
Accounts payable - trade	\$ 20,482	\$	20,482
Accrued payroll	12,582		12,582
Total liabilities	<u>33,064</u>		<u>33,064</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	43,096		43,096
Total deferred inflows of resources	<u>43,096</u>		<u>43,096</u>
FUND BALANCES			
Fund balances:			
Restricted:			
Stabilization by State Statute	217,082		217,082
Streets	71,372		71,372
Unassigned	462,395		462,395
Total fund balances	<u>750,849</u>		<u>750,849</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 827,009</u>		

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 141,567

Other long-term assets (accrued interest receivable from taxes) are not available to pay for current period expenditures and therefore are inflows of resources in the funds. 11,841

Liabilities for earned revenues considered deferred inflows of resources in fund statements. 43,096

Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds. (171,770)

Net position of governmental activities \$ 775,583

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

Exhibit 4

**Town of Warrenton
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014**

	Major Funds		Total Governmental Funds
	General Fund		
REVENUES			
Ad valorem taxes	\$ 460,288	\$	460,288
Other taxes and licenses	13,441		13,441
Unrestricted intergovernmental	233,324		233,324
Restricted intergovernmental	71,944		71,944
Permits and fees	3,388		3,388
Sales and services	216,586		216,586
Investment earnings	158		158
Miscellaneous	44,270		44,270
Total revenues	<u>1,043,399</u>		<u>1,043,399</u>
EXPENDITURES			
General government	284,624		284,624
Public safety	451,970		451,970
Transportation	155,870		155,870
Environmental protection	90,133		90,133
Debt service:			
Principal	19,926		19,926
Interest and other charges	4,535		4,535
Total expenditures	<u>1,007,058</u>		<u>1,007,058</u>
Excess (deficiency) of revenues over expenditures	<u>36,341</u>		<u>36,341</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from installment financing	100,006		100,006
Total other financing sources (uses)	<u>100,006</u>		<u>100,006</u>
Net change in fund balance	136,347		136,347
Fund balances, beginning	614,502		614,502
Fund balances, ending	<u>\$ 750,849</u>	\$	<u>750,849</u>

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

Exhibit 5

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

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

Net changes in fund balances - total governmental funds		\$ 136,347
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period		
Capital outlay expenditures which were capitalized	104,249	
Depreciation expense for governmental assets	<u>(37,665)</u>	66,584
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred revenue for tax revenues		(3,242)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
New long-term debt issued	(100,006)	
Principal payments on long-term debt	<u>19,926</u>	(80,080)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences		<u>7,093</u>
Total changes in net position of governmental activities		<u><u>\$ 126,702</u></u>

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

**Town of Warrenton
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2014**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 445,061	\$ 445,061	\$ 460,288	\$ 15,227
Other taxes and licenses	8,000	8,000	13,441	5,441
Unrestricted intergovernmental	260,000	260,000	233,324	(26,676)
Restricted intergovernmental	27,085	36,503	71,944	35,441
Permits and fees	5,700	29,700	3,388	(26,312)
Sales and services	177,092	156,802	216,586	59,784
Investment earnings	95	136	158	22
Miscellaneous	5,000	5,000	44,270	39,270
Total revenues	<u>928,033</u>	<u>941,202</u>	<u>1,043,399</u>	<u>102,197</u>
Expenditures:				
General government	171,206	174,108	284,624	(110,516)
Public safety	481,361	488,361	451,970	36,391
Transportation	154,370	160,644	155,870	4,774
Environmental protection	95,732	93,628	90,133	3,495
Debt service:				
Principal retirement	20,829	19,926	19,926	-
Interest and other charges	4,535	4,535	4,535	-
Total expenditures	<u>928,033</u>	<u>941,202</u>	<u>1,007,058</u>	<u>(65,856)</u>
Revenues over (under) expenditures	-	-	36,341	36,341
Other financing sources (uses):				
Proceeds from installment financing	-	-	100,006	100,006
Total other financing sources (uses)	-	-	100,006	100,006
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	136,347	<u>\$ 136,347</u>
Fund balances, beginning			614,502	
Fund balances, ending			<u>\$ 750,849</u>	

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

Town of Warrenton
Statement of Fund Net Position
Proprietary Funds
June 30, 2014

	Wastewater Treatment Fund	Water and Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ 363,006	\$ 363,006
Restricted cash	-	87,585	87,585
Due from other funds	-	4,032	4,032
Accounts receivable, net	57,547	77,076	134,623
Grants receivable	-	54,817	54,817
Notes receivable	-	12,484	12,484
Inventories	-	44,603	44,603
Total current assets	<u>57,547</u>	<u>643,603</u>	<u>701,150</u>
Capital assets:			
Land and other non-depreciable assets	-	5,250	5,250
Other capital assets, net of depreciation	26,336	4,034,629	4,060,965
Capital assets (net)	<u>26,336</u>	<u>4,039,879</u>	<u>4,066,215</u>
Total assets	<u>\$ 83,883</u>	<u>\$ 4,683,482</u>	<u>\$ 4,767,365</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 8,904	\$ 113,962	\$ 122,866
Accrued payroll	11,969	10,830	22,799
Due to other funds	100,528	-	100,528
Customer deposits	-	87,585	87,585
Compensated absences - current	2,805	4,357	7,162
Installment purchases - current	-	33,692	33,692
Total current liabilities	<u>124,206</u>	<u>250,426</u>	<u>374,632</u>
Non-current liabilities:			
Liabilities payable from restricted assets:			
Other non-current liabilities:			
Compensated absences - non-current	3,536	5,491	9,027
Installment purchases - non-current	-	351,875	351,875
Total non-current liabilities	<u>3,536</u>	<u>357,366</u>	<u>360,902</u>
Total liabilities	<u>127,742</u>	<u>607,792</u>	<u>735,534</u>
NET POSITION			
Net investment in capital assets	26,336	3,654,312	3,680,648
Unrestricted	(70,195)	421,378	351,183
Total net position	<u>\$ (43,859)</u>	<u>\$ 4,075,690</u>	<u>\$ 4,031,831</u>

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

Exhibit 8

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

	Wastewater Treatment Fund	Water and Sewer Fund	Total
OPERATING REVENUES			
Charges for services	\$ 487,383	\$ 1,017,379	\$ 1,504,762
Other operating revenues	34,982	7,230	42,212
Total operating revenues	<u>522,365</u>	<u>1,024,609</u>	<u>1,546,974</u>
OPERATING EXPENSES			
Administration	278,701	238,271	516,972
Water and sewer operations	-	767,113	767,113
Water collection and treatment	251,962	-	251,962
Depreciation	4,651	264,772	269,423
Total operating expenses	<u>535,314</u>	<u>1,270,156</u>	<u>1,805,470</u>
Operating income (loss)	<u>(12,949)</u>	<u>(245,547)</u>	<u>(258,496)</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	23	1,004	1,027
Interest and other charges	-	(7,181)	(7,181)
Total non-operating revenue (expenses)	<u>23</u>	<u>(6,177)</u>	<u>(6,154)</u>
Income (loss) before contributions and transfers	<u>(12,926)</u>	<u>(251,724)</u>	<u>(264,650)</u>
Capital contributions	-	249,350	249,350
Transfers to/from other funds	100,000	(100,000)	-
Change in net position	<u>87,074</u>	<u>(102,374)</u>	<u>(15,300)</u>
Total net position, beginning - as previously stated	<u>(130,933)</u>	<u>4,169,564</u>	<u>4,038,631</u>
Prior period adjustment	<u>-</u>	<u>8,500</u>	<u>8,500</u>
Total net position, beginning - as restated	<u>(130,933)</u>	<u>4,178,064</u>	<u>4,047,131</u>
Total net position, ending	<u>\$ (43,859)</u>	<u>\$ 4,075,690</u>	<u>4,031,831</u>

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

Exhibit 9

**Town of Warrenton
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2014**

	Wastewater Treatment Fund	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 509,868	\$ 1,055,020	\$ 1,564,888
Cash paid for goods and services	(338,835)	(820,642)	(1,159,477)
Cash paid to or on behalf of employees for services	(186,517)	(221,292)	(407,809)
Net customer deposits	-	799	799
Net cash provided (used) by operating activities	<u>(15,484)</u>	<u>13,885</u>	<u>(1,599)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Interfund activity	(95,968)	(3,382)	(99,350)
Transfers (to) from other funds	100,000	(100,000)	-
Total cash flows from non-capital financing activities	<u>4,032</u>	<u>(103,382)</u>	<u>(99,350)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	-	(478,559)	(478,559)
Capital contributions	-	194,533	194,533
Principal paid on notes payable	-	(32,144)	(32,144)
Proceeds from notes payable	-	329,683	329,683
Interest paid on notes payable	-	(7,181)	(7,181)
Principal received on notes payable	-	2,029	2,029
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>8,361</u>	<u>8,361</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	23	1,004	1,027
Net increase (decrease) in cash and cash equivalents	(11,429)	(80,132)	(91,561)
Balances, beginning	11,429	530,723	542,152
Balances, ending	<u>\$ -</u>	<u>\$ 450,591</u>	<u>\$ 450,591</u>
 Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	<u>\$ (12,949)</u>	<u>\$ (245,547)</u>	<u>\$ (258,496)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	4,651	264,772	269,423
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(12,497)	30,411	17,914
Increase (decrease) in accounts payable	3,359	(41,598)	(38,239)
Increase (decrease) in accrued payroll	6,648	4,546	11,194
Increase (decrease) in customer deposits	-	799	799
Increase (decrease) in compensated absences	(4,696)	502	(4,194)
Total adjustments	<u>(2,535)</u>	<u>259,432</u>	<u>256,897</u>
Net cash provided (used) by operating activities	<u>\$ (15,484)</u>	<u>\$ 13,885</u>	<u>\$ (1,599)</u>

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

Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Warrenton (the Town) conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

B. Basis of Presentation

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

The statement of activities presents a comparison between direct 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 and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

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

Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

The Town reports the following major enterprise funds:

Enterprise Funds. The enterprise funds are used to account for those operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the 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 the 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 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 for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town'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 system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year.

Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain Intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied. Grant revenues that 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 is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for capital projects. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. 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, Deferred Outflows/Inflows of Resources, and Fund Equity

1. Deposits and Investments

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

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

**Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

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.

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

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected and are classified as restricted cash in the enterprise funds. Powell Bill funds are also classified as restricted cash within the General Fund because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.1.

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, 2012. 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. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that 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 General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased. The inventories of the Town's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

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

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.

Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

Capital assets are depreciated using the straight-line method over the following useful lives to the cost of the assets:

<u>Asset Type</u>	<u>Years</u>
Buildings	40
Improvements	15
Vehicles	5
Furniture and equipment	7-10
Computer equipment	3
Infrastructure	50

8. Deferred Outflows/Inflows of Resources

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

9. Long-Term Obligations

In the government-wide financial statements, and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statements, governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

10. Compensated Absences

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

**Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

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 does not have an obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

Restricted for Stabilization by State Statute – 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 unexpected Powell Bill funds.

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

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

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

The Town 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, and 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
For the Fiscal Year Ended June 30, 2014**

II. Stewardship, Compliance, and Accountability

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

1. Deficit in Fund Balance or Net Position of Individual Funds

For the fiscal year ended June 30, 2014, the Wastewater Treatment Fund had a deficit in Net Position of \$43,859. The Town has reduced the deficit by \$87,074 mostly due to repayment of \$100,000 of an interfund loan from the General Fund. The Town will continue to make efforts to reduce the deficit.

2. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2014, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for general government by \$110,516. This over expenditure occurred due to the Town's USDA Street Scape project and expenditure accruals not being adequately budgeted for. Management and the Board will more closely review the budget reports and expected expense accruals 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 the Town's 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 its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for 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 risks for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2014, the Town's deposits had a carrying amount of \$965,820 and a bank balance of \$970,194. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$720,194 was covered by collateral held under the Pooling Method. The Town's petty cash totaled \$60 at June 30, 2014.

2. Investments

At June 30, 2014 the Town's investment balances were as follows:

	<u>Cost Value</u>	<u>Fair Value</u>
North Carolina Capital Management Trust		
Cash Portfolio	<u>\$51,542</u>	<u>\$51,542</u>

Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

Interest Rate Risk. The Town does not have a formal investment policy that specifically limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates.

Credit Risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs); however, the Town had no formal policy on specifically managing credit risk. As of June 30, 2014, the Town's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's. The Town's investments in US Government Agencies are rated AAA by Standard & Poor's.

Concentration of Credit Risk. The Town places no limit on the amount that the Town may invest in any one issuer.

3. Receivables - Allowances for Doubtful Accounts

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

	Accounts	Taxes	Due from other governments	Total
Governmental Activities:				
General	\$ 16,294	\$ 43,096	\$ 77,212	\$ 136,602
Other governmental	-	-	31,874	31,874
Allowance for doubtful accounts	(4,794)	-	-	(4,794)
Total governmental activities	<u>\$ 11,500</u>	<u>\$ 43,096</u>	<u>\$ 109,086</u>	<u>\$ 163,682</u>
Business-Type Activities:				
Wastewater treatment	\$ 57,547	\$ -	\$ -	\$ 57,547
Water and sewer	162,170	-	54,817	216,987
Allowance for doubtful accounts	(85,094)	-	-	(85,094)
Total business-type activities	<u>\$ 134,623</u>	<u>\$ -</u>	<u>\$ 54,817</u>	<u>\$ 189,440</u>

Due from other governments consisted of the following:

Local option sales tax	\$ 25,977
Franchise tax	18,331
Sales tax refund	26,002
Taxes - Warren County	6,902
USDA grant receivable	31,874
	<u>\$ 109,086</u>
NCDENR grant/loan receivable	\$ 54,817
	<u>\$ 54,817</u>

The Town has two outstanding notes receivable with local businesses. These loans were made for improvements on real property, and funds were provided by the US Department of Agriculture to make these loans.

The first loan was made on November 1, 2012 in the amount of \$6,500 with an interest rate of 3.25%. Monthly installments are due to the Town in the amount of \$87, and the first installment was due December 1, 2012. The loan matures on November 1, 2019. The balance of this note receivable is \$5,083 at June 30, 2014 and is considered fully collectible.

Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

The second loan was made on May 24, 2013 in the amount of \$8,500 with an interest rate of 3.25%. Monthly installments are due to the Town in the amount of \$113, and the first installment was due July 1, 2013. The loan matures June 1, 2020. The balance of this note receivable is \$7,401 at June 30, 2014 and is considered fully collectible.

4. Capital Assets

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Total capital assets not being depreciated	1,000	-	-	1,000
Capital assets being depreciated				
Buildings	24,111	-	-	24,111
Equipment	151,036	4,800	-	155,836
Improvements	-	99,449	-	99,449
Vehicles and motorized equipment	422,236	-	-	422,236
Total capital assets being depreciated	597,383	104,249	-	701,632
Less accumulated depreciation for				
Buildings	18,750	408	-	19,158
Equipment	133,668	7,719	-	141,387
Improvements	-	-	-	-
Vehicles and motorized equipment	370,982	29,538	-	400,520
Accumulated depreciation	523,400	\$ 37,665	\$ -	561,065
Total capital assets, depreciated, net	73,983			140,567
Governmental activity capital assets, net	\$ 74,983			\$ 141,567

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

General government	\$ 786
Public safety	24,259
Transportation	12,620
	<u>\$ 37,665</u>

Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Wastewater Treatment Fund				
Capital assets being depreciated	\$ 14,858	\$ -	\$ -	\$ 14,858
Improvements	30,065	-	-	30,065
Vehicles	111,407	-	-	111,407
Equipment	156,330	-	-	156,330
Total capital assets being depreciated				
Less accumulated depreciation for	-	381	-	381
Improvements	30,065	-	-	30,065
Vehicles	95,278	4,270	-	99,548
Equipment	125,343	4,651	-	129,994
Accumulated Depreciation	30,987			26,336
Capital assets, depreciated, net	\$ 30,987			\$ 26,336
Wastewater Treatment Fund capital assets				
Water and Sewer Fund				
Capital assets not being depreciated	\$ 5,250	\$ -	\$ -	\$ 5,250
Land	191,347	398,225	589,572	-
Construction in progress	196,597	398,225	589,572	5,250
Total capital assets not being depreciated				
Capital assets being depreciated	5,263,471	589,572	-	5,853,043
Water and sewer lines	160,232	-	-	160,232
Water and sewer plant	167,054	50,000	-	217,054
Improvements	167,384	30,334	9,000	188,718
Vehicles	206,423	-	-	206,423
Equipment	5,964,564	669,906	9,000	6,625,470
Total capital assets being depreciated				
Less accumulated depreciation for	2,040,860	212,909	-	2,253,769
Water and sewer lines	26,264	4,006	-	30,270
Water and sewer plant	11,131	6,682	-	17,813
Improvements	132,627	23,384	9,000	147,011
Vehicles	124,187	17,791	-	141,978
Equipment	2,335,069	264,772	9,000	2,590,841
Accumulated Depreciation	3,629,495			4,034,629
Capital assets, depreciated, net	\$ 3,826,092			\$ 4,039,879
Water and Sewer Fund capital assets				
Business-type Activities capital assets	\$ 3,857,079			\$ 4,066,215

B. 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 at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 13.92% and 14.09%,

**Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

respectively, of annual covered payroll. Due to the Town not previously participating in the plan, the employer rate for employees not engaged in law enforcement is comprised of 6.87% base plus 6.85% accrued liability plus .20% expenses, and the employer rate for employees engagement in law enforcement is comprised of 7.55% base plus 6.85% accrued liability plus .14% death benefits less .45% court cost.. The contribution requirements of members and of the Town of Warrenton are established and may be amended by the North Carolina General Assembly. The Town's contribution to LGERS for the year ended June 30, 2014 was \$62,399. 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. 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, 2013, the Separation Allowance's membership consisted of:

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

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies:

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

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures 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 benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. The Town has chosen not to have an actuarial study performed because the liability is considered 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
For the Fiscal Year Ended June 30, 2014

Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Contributions for the year ended June 30, 2014 were \$6,382.

2. Other Employment Benefits

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

3. Deferred Inflows of Resources

Deferred inflows of resources at year-end is comprised of property taxes receivable in the amount of \$43,096.

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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 per occurrence.

Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

5. Long-Term Obligations

a. Installment Purchases

As authorized by State law (G.S. 160A-20 and 153A-158.1), the Town financed various property and equipment acquisitions by installment purchases. Installment purchase contracts at June 30, 2014 are comprised of the following individual agreements:

Government Activities:

An agreement was executed on March 22, 2007 for \$143,000 to purchase new sewer lines. This agreement requires fifteen annual payments of \$12,835, including interest at 3.97% per annum. (45.75% of this note is held by the general fund and 54.25% is held by the water and sewer fund) \$ 39,588

An agreement was executed on October 20, 2010 for \$49,639 to purchase a leaf collection truck. This agreement requires five annual payments of \$11,045, including interest at 3.73% per annum. 20,916

An agreement was executed on September 26, 2013 for \$150,000 for replacement and repair of the Town Hall roof. This agreement requires 120 monthly payments of \$1,417, including interest at 2.54%. (67% of this note is held by the general fund and 33% is held by the water and sewer fund) 94,094

Total governmental activities \$ 154,598

Business-Type Activities:

An agreement was executed on March 22, 2007 for \$143,000 to purchase new sewer lines. This agreement requires fifteen annual payments of \$12,835, including interest at 3.97% per annum. (45.75% of this note is held by the general fund and 54.25% is held by the water and sewer fund) \$ 46,936

An agreement was executed on October 20, 2010 for \$31,025 to purchase a Ford F250 truck. This agreement requires three annual payments of \$10,905, including interest at 3.58% per annum. This loan was paid off in the current fiscal year. -

An agreement was executed on September 26, 2013 for \$150,000 for replacement and repair of the Town Hall roof. This agreement requires 120 monthly payments of \$1,417, including interest at 2.54%. (67% of this note is held by the general fund and 33% is held by the water and sewer fund) 47,047

An agreement was executed on October 17, 2013 for \$30,334 to purchase a Ford F250 truck. This agreement requires three annual payments of \$11,387, including interest at 1.75%. (67% of this note is held by the general fund and 33% is held by the water and sewer fund) 30,334

NCDENR funded a project for sewer system rehabilitation and related loan proceeds total \$275,000. This agreement requires annual principal payments of \$13,750 plus interest at 2.00% per annum beginning May 1, 2014. Maturity is May 2033. 261,250

Total business-type activities \$ 385,567

Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

Future minimum payments as of June 30, 2014 for the installment purchase contracts are as follows:

b. Changes in Long-Term Liabilities

A summary of changes in long-term obligations follows:

Year Ending June 30	Principal	Interest	Total
Governmental Activities:			
2015	\$ 24,381	\$ 4,821	\$ 29,202
2016	24,427	3,823	28,250
2017	14,189	3,017	17,206
2018	14,618	2,588	17,206
2019	15,062	2,144	17,206
2020-2024	61,921	3,865	65,786
	<u>\$ 154,598</u>	<u>\$ 20,258</u>	<u>\$ 174,856</u>
Business-Type Activities:			
Water and Sewer Fund:			
2015	\$ 33,692	\$ 8,898	\$ 42,590
2016	33,813	8,016	41,829
2017	34,319	7,218	41,537
2018	24,374	6,406	30,780
2019	24,727	5,778	30,505
2020-2024	110,892	19,332	130,224
2025-2029	68,750	9,625	78,375
2030-2033	55,000	2,750	57,750
	<u>\$ 385,567</u>	<u>\$ 68,023</u>	<u>\$ 453,590</u>

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 74,518	\$ 100,006	\$ 19,926	\$ 154,598	\$ 24,382
Compensated absences	23,022	-	7,092	15,930	10,036
Total	<u>\$ 97,540</u>	<u>\$ 100,006</u>	<u>\$ 27,018</u>	<u>\$ 170,528</u>	<u>\$ 34,418</u>
Business-type activities:					
Installment purchases	\$ 88,028	\$ 329,683	\$ 32,144	\$ 385,567	\$ 33,692
Compensated absences	20,383	-	4,194	16,189	7,162
Total	<u>\$ 108,411</u>	<u>\$ 329,683</u>	<u>\$ 36,338</u>	<u>\$ 401,756</u>	<u>\$ 40,854</u>

At June 30, 2014, the Town of Warrenton had a legal debt margin of \$5,231,911.

**Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

c. Commitments

The Town has entered into a contract with Soul City Sanitary District for the sale of water to the Town until March 20, 2037. The Town is obligated to purchase a minimum of 250,000 gallons of water per day under the terms of this agreement.

The Town has entered into a contract with the Town of Norlina and Warren County in which the Town has agreed to operate the wastewater treatment facility, and the cost of these operations is allocated between the parties as follows: Warren County – 58%, Warrenton – 25%, and Norlina 17%. The Town charges all related expenses to the Wastewater Treatment Fund and bills Warren County and Norlina monthly for their share of the expenses. This agreement is in effect until a new agreement or an amendment is made.

The Town has entered into a contract with Warrenton Rural Voluntary Fire Association, Inc. for fire protection services until June 30, 2015. The Town is obligated to pay \$70,000 under the terms of this contract during the fiscal year ended June 30, 2015.

The Town has entered into a contract with W. M. Gardner Family Limited Partnership for the rental of space until September 1, 2015. The Town is obligated to pay \$800 plus utilities per month under the terms of this agreement.

C. Interfund Balances and Activity

Due To/From Other Funds

At June 30, 2014, \$96,496 was due to the General Fund from the Wastewater Treatment Fund and \$4,032 was due to the Water and Sewer Fund from the Wastewater Treatment Fund; these loans represent advances to cover various expenses. During the year ended June 30, 2014, the Water and Sewer Fund transferred \$100,000 to the Wastewater Treatment Fund so that a portion of the loan from the General Fund could be repaid. Also, the Water and Sewer Fund paid \$314,527 to the Wastewater Treatment Fund for the Town's share of wastewater treatment operations. As this amount represents interfund services provided and used it is recorded as revenue in the Wastewater Treatment Fund and as an expense in the Water and Sewer Fund.

D. Fund Balance

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

Total fund balance - General Fund	\$ 750,849
Less restricted for:	
Stabilization by State statute	217,082
Streets	71,372
Remaining Fund Balance	462,395

The Town 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, and 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.

The Town has not officially adopted a fund balance policy.

Town of Warrenton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

IV. Jointly Governed Organization

The Kerr-Tarr Council of Government is a voluntary association of five county and fifteen 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 \$416 to the Council during the year ended June 30, 2014.

V. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

VI. Subsequent Events

The Town has evaluated events from the date of the balance sheet through the date the report is available to be issued which is the date of the independent auditors' report. The Town has not evaluated subsequent events after that date. There were no subsequent events during this period that require disclosure.

VII. Prior Period Adjustment

A prior period adjustment was posted to the books to record the note receivable that was paid out during the fiscal year ended June 30, 2013. As a result, Water and Sewer Fund beginning net position was increased by \$8,500.

VIII. Related Parties

The Town rents space from a related party as described above in the Commitments footnote.

Town of Warrenton
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 457,018	\$
Penalties and interest		3,270	
Total	445,061	460,288	15,227
Other taxes and licenses:			
Privilege licenses		13,441	
Total	8,000	13,441	5,441
Unrestricted intergovernmental:			
Local option sales taxes		148,810	
Utility franchise tax		78,442	
Beer and wine tax		3,727	
Gas tax refund		2,345	
Total	260,000	233,324	(26,676)
Restricted intergovernmental:			
Powell Bill allocation		27,498	
Police CHRP grant		7,772	
Police GCC grant		4,800	
USDA Streetscape grant		31,874	
Total	36,503	71,944	35,441
Permits and fees:			
Zoning fees		275	
Code enforcement		1,275	
Parking fees and enforcement		400	
Court fees		438	
Cemetery fees		1,000	
Total	5,700	3,388	(2,312)
Sales and services:			
Landfill fees		162,718	
Cell tower rent		25,360	
Miscellaneous		28,508	
Total	180,843	216,586	35,743
Investment earnings	95	158	63
Miscellaneous	5,000	44,270	39,270
Total revenues	941,202	1,043,399	102,197

Town of Warrenton
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General Government			
Governing Body			
Personnel services		1,501	
Operating expenses		1,259	
Total	3,000	2,760	240
Administration			
Personnel services		163,202	
Operating expenses		114,558	
Capital outlay		99,449	
Administrative fee paid by Water and Sewer		(95,345)	
Total	171,108	281,864	(110,756)
Total general government	174,108	284,624	(110,516)
Public Safety			
Police			
Personnel services		260,560	
Operating expenses		120,228	
Total	415,215	380,788	34,427
Fire			
Personnel services		3,096	
Operating expenses		68,086	
Total	73,146	71,182	1,964
Total public safety	488,361	451,970	36,391
Transportation and Utilities			
Street repair and construction			
Personnel services		75,985	
Operating expenses		90,385	
Mowing fees paid by Water and Sewer		(10,500)	
Total	160,644	155,870	4,774
Total transportation and utilities	160,644	155,870	4,774

Town of Warrenton
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
Environmental Protection			
Sanitation			
Personnel services		58,057	
Operating expenses		32,076	
Capital outlay			
Total	93,628	90,133	3,495
Total environmental protection	93,628	90,133	3,495
Debt service			
Principal retirement		19,926	
Interest and other charges		4,535	
Total	24,461	24,461	-
Total expenditures	941,202	1,007,058	(65,856)
Revenues over (under) expenditures	-	36,341	36,341
Other financing sources (uses):			
Proceeds from installment financing	-	100,006	100,006
Appropriated Fund Balance	-	-	-
Total	-	100,006	100,006
Revenues and other financing sources over expenditures and other financing uses	\$ -	136,347	\$ 136,347
Fund balances, beginning		614,502	
Fund balances, ending		\$ 750,849	

**Town of Warrenton
Wastewater Treatment Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2014**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services:			
Wastewater Treatment:	\$	\$ 487,383	\$
Total	598,442	487,383	(111,059)
Total operating revenues	598,442	487,383	(111,059)
Non-operating revenues:			
Interest earnings		23	
Miscellaneous revenue		34,982	
Total nonoperating revenues	32,000	35,005	3,005
Total revenues	630,442	522,388	(108,054)
Expenditures:			
Operating expenditures:			
Salaries and benefits		188,469	
Audit		6,333	
Telephone and postage		5,405	
Freight		3,922	
Office supplies		934	
Light and heat		64,455	
Materials and supplies		53,913	
Vehicle maintenance		1,086	
Truck expense		6,848	
Insurance and bonds		20,609	
Equipment and plant maintenance		66,377	
Uniforms		3,290	
Sludge hauling		44,363	
Influent debris removal		3,278	
Kerr-Pamlico Basin Association		2,880	
Permits and fees		5,518	
Beaver control		2,000	
OSHA compliance		1,106	
Lab analysis		20,561	
Certified lab expense		1,811	
Computer improvements		1,131	
Contract maintenance		1,799	
Travel expense		268	
Continuing education		507	
Advertising		278	
Human resources consultant		1,300	
Administrative fee		26,917	
Total	630,442	535,358	95,084

**Town of Warrenton
Wastewater Treatment Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Transfer from water and sewer	<u>-</u>	<u>100,000</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>100,000</u>	<u>(100,000)</u>
Revenues and other sources over (under) expenditures and other uses	\$ <u>-</u>	\$ <u>87,030</u>	\$ <u>87,030</u>

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

Revenues and other sources over expenditures and other uses	\$ 87,030
Reconciling items:	
Depreciation	(4,651)
Decrease in compensated absences	<u>4,695</u>
Total reconciling items	<u>44</u>
Net income	\$ <u>87,074</u>

Town of Warrenton
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services:			
Water and sewer sales	\$	\$ 1,016,059	\$
Water and sewer taps		1,320	
Total	<u>1,098,964</u>	<u>1,017,379</u>	<u>81,585</u>
Total operating revenues	<u>1,098,964</u>	<u>1,017,379</u>	<u>81,585</u>
Non-operating revenues:			
Interest earnings		1,004	
Miscellaneous revenue		7,230	
Total non-operating revenues	<u>88</u>	<u>8,234</u>	<u>(8,146)</u>
Total revenues	<u>1,099,052</u>	<u>1,025,613</u>	<u>73,439</u>
Expenditures:			
Operating expenditures:			
Salaries and benefits		225,690	
Water purchases		410,979	
Rent		3,318	
Audit		6,433	
Equipment maintenance		23,447	
Water tank maintenance		15,143	
Building maintenance		812	
Contracted services		58,140	
Insurance and bonds		20,171	
Departmental supplies and materials		57,010	
Uniforms		3,078	
Telephone and postage		10,540	
Freight		938	
Office supplies		3,614	
Lights and heat		6,507	
Advertising		205	
Easements		1,000	
Truck expense		14,855	
Continuing education		2,888	
Dues and permits		3,602	
Travel expense		660	
Certified lab expense		1,744	
OSHA compliance		460	
EnviroLink		13,065	
Computer improvements		3,217	
Contract maintenance		1,894	
Human resources consultant		1,300	
Wastewater treatment plant rehab		35,242	
Debt service		39,325	
Capital outlay		30,334	
Mowing fee		10,500	
Administrative fee		68,430	
Total	<u>1,129,390</u>	<u>1,074,541</u>	<u>54,849</u>

**Town of Warrenton
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Proceeds from installment financing	30,338	30,334	(4)
Transfer to wastewater treatment	-	(100,000)	(100,000)
Total other financing sources (uses)	<u>30,338</u>	<u>(69,666)</u>	<u>(100,004)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ (118,594)</u>	<u>\$ (118,594)</u>
 Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ (118,594)	
Reconciling Items:			
Principal retirement		32,144	
Installment financing proceeds		(30,334)	
Capital outlay		30,334	
Capital contributions		249,350	
Depreciation		(264,772)	
Increase in compensated absences		(502)	
Total reconciling items		<u>16,220</u>	
Net income		<u>\$ (102,374)</u>	

Town of Warrenton
Sewer Rehab
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Non - GAAP)
Budget and Actual
For the Fiscal Year ended June 30, 2014 and From Inception

		Actual			Variance
	Project Authorization	Prior Years	Current Year	Total Project To Date	Favorable (Unfavorable)
Revenues:					
Sewer System Rehab	\$ 250,000	\$ 25,650	\$ 249,350	\$ 275,000	\$ 25,000
Total revenues	250,000	25,650	249,350	275,000	25,000
Expenditures:					
Sewer System Rehab	590,440	191,347	398,225	589,572	868
Total expenditures	590,440	191,347	398,225	589,572	868
Excess (Deficit) of revenues over (under) expenditures	(340,440)	(165,697)	(148,875)	(314,572)	25,868
Other financing sources (uses):					
Transfer from Water and Sewer Fund	40,440	39,572	-	39,572	(868)
Installment purchase obligations issued	300,000	25,650	249,350	275,000	(25,000)
Total other financing sources (uses)	340,440	65,222	249,350	314,572	(25,868)
Excess (Deficit) of revenues & other financing sources over (under) expenditures & other financing uses	\$ -	\$ (100,475)	\$ 100,475	\$ -	\$ -

Reconciliation of Modified Accrual Basis to Full Accrual Basis:

Excess (Deficit) of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ 100,475</u>
Expenditures Recorded as Capital assets	<u>\$ 589,572</u>

Town of Warrenton
General Fund
Schedule of Ad Valorem Taxes Receivable

Fiscal Year	Uncollected Balance June 30, 2013	Additions	Collections And Credits	Abatements And Adjustments	Uncollected Balance June 30, 2014
2014	\$ -	\$ 438,720	\$ 422,519	\$ -	\$ 16,201
2013	20,469	-	11,658	(1,902)	6,909
2012	7,192	-	2,573	(204)	4,415
2011	3,752	-	739	(16)	2,997
2010	2,160	-	356	(37)	1,767
2009	2,163	-	104	(36)	2,023
2008	2,456	-	34	(2)	2,420
2007	2,120	-	105	-	2,015
2006	2,290	-	-	-	2,290
2005	2,169	-	11	(99)	2,059
2004	1,567	-	-	(1,567)	-
	<u>\$ 46,338</u>	<u>\$ 438,720</u>	<u>\$ 438,099</u>	<u>\$ (3,863)</u>	<u>\$ 43,096</u>

Reconciliation with revenues:

Ad valorem taxes - General Fund	\$ 460,288
Reconciling items:	
Interest collected	(3,270)
Taxes collected by NCDMV	<u>(18,919)</u>
Subtotal	<u>(22,189)</u>
Total collections and credits	<u>\$ 438,099</u>

Town of Warrenton
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2014

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at					
Current Year Rate	\$ 70,370,612	0.61	\$ 428,613	\$ 428,613	\$ -
Less old age exemption	(1,004,699)	0.61	(6,129)	(6,129)	-
Registered motor vehicles	2,785,040	0.61	16,236	-	16,236
Total Property Valuation	<u>\$ 72,150,953</u>		<u>\$ 438,720</u>	<u>\$ 422,484</u>	<u>\$ 16,236</u>
Net levy			\$ 438,720	\$ 422,484	\$ 16,236
Uncollected taxes at June 30, 2014			<u>(16,201)</u>	<u>(14,251)</u>	<u>(1,950)</u>
Current year's taxes collected			<u>\$ 422,519</u>	<u>\$ 408,233</u>	<u>\$ 14,286</u>
Current levy collection percentage			<u>96.31%</u>	<u>96.63%</u>	<u>87.99%</u>

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Warrenton, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Warrenton's basic financial statements, and have issued our report thereon dated December 22, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 2014-1, 2014-2, 2014-3, 2014-4

A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies that we consider to be significant deficiencies.

Compliance and Other Matters

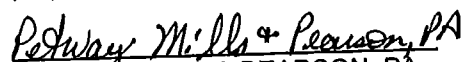
As part of obtaining reasonable assurance about whether the Town of Warrenton's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2014-1, 2014-2, 2014-3, 2014-4.

Town of Warrenton's Response to Findings

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

Purpose of this Report

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


PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

December 22, 2014

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

SECTION I. – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency (ies) identified
that are not considered to be
material weaknesses? yes X none reported

Noncompliance material to financial
statements noted X yes no

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

SECTION II. – FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-1	Preparation of Financial Statements
Criteria:	Management staff should have adequate knowledge to be able to prepare the financial statements to ensure material errors are detected and corrected.
Condition:	Management staff has limited knowledge regarding preparation of the Town's financial statements.
Effect:	Financial statements could be presented with material misstatements.
Cause:	Management staff has limited knowledge regarding GAAP and its application to the financial statements.
Recommendation:	Management staff 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 staff.

MATERIAL WEAKNESS

2014-2	Accurate and Complete Accounting Records
Criteria:	North Carolina General Statutes require units to maintain accurate and complete accounting records.
Condition:	In the current year there was a violation of General Statutes regarding maintaining accurate and complete accounting records.
Effect:	Prior year adjustments and material current year adjustments were made to the financial statements to correct errors.
Cause:	The Town's records were not complete due to the failure to reconcile cash, accounts receivable and customer deposits to subsidiary ledgers in a timely manner.
Recommendation:	The Town should reconcile cash, receivables and customer deposits to subsidiary ledgers monthly.
Views of responsible officials and planned corrective actions:	The Town agrees with this finding. Additional training will be sought for management staff to ensure that accounts are reconciled timely and accurately.

SECTION II. – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESS

2014-3	Deficit Fund Balance or Net Position
Criteria:	North Carolina General Statutes require each fund to maintain a positive fund balance.
Condition:	The Wastewater Treatment Fund has a deficit net position at June 30, 2014.
Effect:	The Town did not comply with North Carolina General Statutes.
Cause:	The Wastewater Treatment Fund has an outstanding loan from the General Fund, which if repaid, would eliminate the deficit net position.
Recommendation:	We recommend that the Town repay the loan from the General Fund as soon as reasonably possible.
Views of responsible officials and planned corrective actions:	The Town agrees with this finding. The loan from the General Fund will be repaid as soon as reasonably possible.

MATERIAL WEAKNESS

2014-4	Expenditures in Excess of Appropriations
Criteria:	North Carolina General Statutes require all moneys expended by a local government to be included in the budget.
Condition:	The Town's General Fund expenditures exceeded authorized appropriations made by the governing board for general government by \$110,516.
Effect:	The Town did not comply with North Carolina General Statutes.
Cause:	The Town's Street Scape project and expenditure accruals were not properly budgeted.
Recommendation:	We recommend that the Town review budget to actual reports regularly and look more closely at expenditure accruals at year end to ensure that all expenditures related to the fiscal year are accounted for in the budget.
Views of responsible officials and planned corrective actions:	The Town agrees with this finding. The Town will review budget to actual reports regularly and look more closely at expenditure accruals at year end to ensure that all expenditures related to the fiscal year are accounted for in the budget.

**Town of Warrenton
Corrective Action Plan
For the Year Ended June 30, 2014**

SECTION II. – FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-1

Contact Person: Robert Davie, Town Administrator

Corrective Action: Additional training will be sought for management staff to become proficient with the rules of GAAP and its application to the financial statements.

MATERIAL WEAKNESS

2014-2

Contact Person: Robert Davie, Town Administrator

Corrective Action: Additional training will be sought for management staff to ensure that accounts are reconciled timely and accurately.

MATERIAL WEAKNESS

2014-3

Contact Person: Robert Davie, Town Administrator

Corrective Action: The loan from the General Fund will be repaid as soon as reasonably possible.

MATERIAL WEAKNESS

2014-4

Contact Person: Robert Davie, Town Administrator

Corrective Action: The Town will review budget to actual reports regularly and look more closely at expenditure accruals at year end to ensure that all expenditures related to the fiscal year are accounted for in the budget.

**Town of Warrenton
Summary Schedule of Prior Year's Audit Findings
For the Year Ended June 30, 2014**

SECTION II. – FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2013-1 Segregation of Duties

The Town has segregated duties among staff and the board.

2013-2 Preparation of Financial Statements

This is a repeat finding. See 2014-1.

2013-3 Excess of Expenditures over Appropriations

This is a repeat finding. See 2014-4.

Town of Warrenton
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2014

GRANTOR/PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	STATE/ PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
FEDERAL GRANTS:			
CASH ASSISTANCE			
<u>US Environmental Protection Agency</u> Passed Through NC Department of Environment and Natural Resources Capitalization Grants for Clean Water State Revolving Funds	66.458	CS370634-01	\$ 398,225
<u>US Department of Agriculture</u> Rural Business Enterprise Grant	10.769		<u>33,874</u>
TOTAL FEDERAL AWARDS			<u>432,099</u>
NC STATE GRANTS:			
CASH ASSISTANCE			
<u>NC Department of Transportation</u> Powell Bill		DOT-4	<u>29,400</u>
Total NC Department of Transportation			<u>29,400</u>
TOTAL STATE AWARDS			<u>29,400</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 461,499</u>

Note to the Schedule of Expenditures of Federal and State Awards:

Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of the Town of Warrenton and is presented on the modified accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of *Government Auditing Standards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

PM&P

**PETWAY
MILLS &
PEARSON, PA**

CERTIFIED PUBLIC ACCOUNTANTS

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Phyllis M. Pearson

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Warrenton for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 22, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under *Government Auditing Standards*

In planning and performing our audit, we considered the Town of Warrenton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

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 grants, 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.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Town of Warrenton are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting Town of Warrenton's financial statements were:

Management's estimate of depreciation expense is based on estimated useful lives. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of allowance for doubtful accounts is based on historical write-offs of bad debt. We evaluated key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of functional expense is based on an analysis of time sheets and direct assignment based on job descriptions. We evaluated the key factors and assumptions used to develop the functional expense classifications to determine they

Memberships:

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American Institute
of Certified Public
Accountants

Medical Group
Management
Association

seemed reasonable in relation to the financial statements for the year ended June 30, 2014. While the procedures used by management and the amounts recorded for functional expenses seem reasonable at this time, there will usually be differences between actual functional use and the estimates used and these differences may be material.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of capital assets in Note III.A.4 to the financial statements and long-term debt in Note III.B.5 to the financial statements.

Capital assets are recorded at cost and depreciated over their estimated useful lives. Long-term debt is amortized over the life of the loan and future maturities are estimated based on the applicable interest rate and monthly payment amount.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 22, 2014

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Commissioners and management of the Town of Warrenton and is not intended to be, and should not be, used by anyone other than these specified parties.

Petway Mills & Pearson, PA
PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

December 22, 2014