

TOWN OF WARRENTON, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2011

Town Council Members

Walter M. Gardner Jr., Mayor
Woody King, Mayor Pro Tem

John E. Blalock
Julius Banzet, III

Mary Hunter
Robert Davie
John Mooring
Audrey Tippet

Administrative and Financial Staff

John Freeman, Town Administrator
Bettie Davis, Town Clerk

**TOWN OF WARRENTON
TABLE OF CONTENTS
JUNE 30, 2011**

	<u>Page</u>
Independent Auditor's Report	3-4
Management's Discussion and Analysis	5-14
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Exhibit 1 Statement of Net Assets	17
Exhibit 2 Statement of Activities	18
FUND FINANCIAL STATEMENTS	
Exhibit 3 Balance Sheet – Governmental Funds	20
Exhibit 3 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	21
Exhibit 4 Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	22
Exhibit 4 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Exhibit 5 Statement of Revenues, Expenditures and Changes in Fund Balances–Annual Budget and Actual-General Fund	24
Exhibit 6 Statement of Fund Net Assets-Proprietary Funds	25-26
Exhibit 7 Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary Funds	27
Exhibit 8 Statement of Cash Flows-Proprietary Funds	28-29
NOTES TO THE FINANCIAL STATEMENTS	31-48
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES	
Governmental Funds	
Exhibit A-1 Statement of Revenues, Expenditures, and Changes In Fund Balance-Budget and Actual-General Fund	50-54

Enterprise Funds

Exhibit B-1	Schedule of Revenues, Expenditures, and Changes In Fund Balance-Budget and Actual-Wastewater Treatment Fund (Non-GAAP)	55-56
Exhibit B-2	Schedule of Revenues, Expenditures, and Changes In Fund Balance-Budget and Actual-Water And Sewer Fund (Non-GAAP)	57-58
Exhibit B-3	Schedule of Revenues, Expenditures, and Changes In Fund Balance-Budget and Actual-Water and Sewer Capital Projects Fund (Non-GAAP)	59

OTHER SCHEDULES

Exhibit C-1	Schedule of Ad Valorem Taxes Receivable	61
Exhibit C-2	Analysis of Current Tax Levy	62

COMPLIANCE SECTION

Report on Compliance and On Internal Control Over Financial Reporting Based on an audit of Financial Statements Performed in accordance with <u>Government Auditing Standards</u>	64-65
Schedule of Findings and Questioned Costs	66-67
Corrective Action Plan	68
Summary Schedule of Prior Year Audit Findings	69

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

Certified Public Accountants



America Counts on CPAs

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

Jennifer T. Reese, CPA
Curtis G. Van Horne, CPA
Cathy E. McKinley, CPA
Thomas F. Edmunds IV, CPA
Leah P. Englebright, CPA
James C. Lamb, CPA
Tara H. Roberson, CPA

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Warrenton, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Warrenton's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Town of Warrenton, North Carolina, as of June 30, 2011, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011 on our consideration of the Town of Warrenton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

102 W. Spring Street • P.O. Box 1366 • Oxford, NC 27565 • (919) 693-5196 • fax (919) 693-7614

www.wwcecpa.com



Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Town of Warrenton, North Carolina. The combining and individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements, budgetary schedules, and other schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Certified Public Accountants

October 26, 2011

Management's Discussion and Analysis

As management of the Town of Warrenton, we offer readers of the Town of Warrenton's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

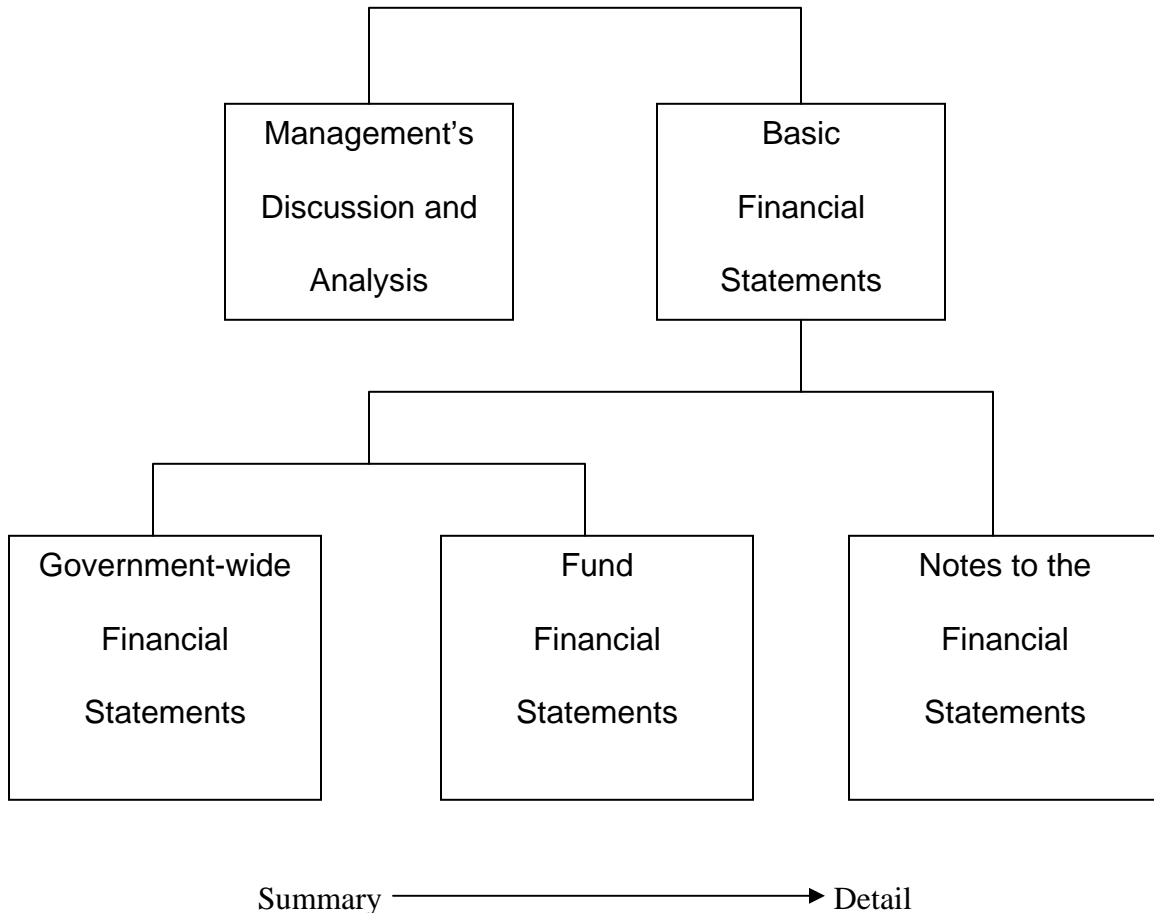
- The assets of the Town of Warrenton exceeded its liabilities at the close of the fiscal year by \$ 4,664,111 (net assets).
- The government's total net assets increased by \$206,567, primarily due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$488,486 an increase of \$17,789 in comparison with the prior year. Approximately 23.11 percent of this total amount, or 112,873, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$112,873, or 11.24 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

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

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

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

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 31-48 of this report.

Government-Wide Financial Analysis

The Town of Warrenton's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 562,754	\$ 531,907	\$ 323,063	\$ 262,392	\$ 885,817	\$ 794,299
Capital assets	167,658	169,823	4,104,278	4,103,904	4,271,936	4,273,727
Total assets	730,412	701,730	4,427,341	4,366,296	5,157,753	5,068,026
Long-term liabilities outstanding	136,920	140,079	186,213	201,162	323,133	341,241
Other liabilities	74,872	100,570	95,637	120,418	170,509	220,988
Total liabilities	211,792	240,649	281,850	321,580	493,642	562,229
Net assets:						
Invested in capital assets, net of related debt	(15,910)	(33,677)	3,953,054	3,937,520	3,937,144	3,903,843
Restricted	359,856	73,208	-	-	359,856	73,208
Unrestricted	174,674	421,550	192,437	107,196	367,111	528,746
Total net assets, as restated	\$ 518,620	\$ 461,081	\$ 4,145,491	\$ 4,044,716	\$ 4,664,111	\$ 4,505,797

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Warrenton exceeded liabilities by \$4,664,111 as of June 30, 2011. The Town of Warrenton's net assets increased by \$206,567 for the fiscal year ended June 30, 2011. A portion reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Warrenton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Warrenton's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Warrenton's net assets (7.72%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$367,111 is unrestricted.

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

- Receipt of police CHRP grant
- Collection of parking enforcement fees

Town of Warrenton Changes in Net Assets

Figure 3

	Governmental Activities		Business-type Activities		Total	Total
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 166,897	\$ 153,252	\$ 1,314,662	\$ 1,218,148	\$ 1,481,559	\$ 1,371,400
Operating grants and contributions	65,909	42,347	-	-	65,909	42,347
Capital grants and contributions	-	-	181,331	182,270	181,331	182,270
General revenues:						
Property taxes	463,622	448,909	-	-	463,622	448,909
Other taxes	256,542	241,490	-	-	256,542	241,490
Grants and contributions not restricted to specific programs			-			
Other	14,852	20,349	23,088	28,947	37,940	49,296
Total revenues	<u>967,822</u>	<u>906,347</u>	<u>1,519,081</u>	<u>1,429,365</u>	<u>2,486,903</u>	<u>2,335,712</u>
Expenses:						
General government	137,928	118,077	-	-	137,928	118,077
Public safety	577,567	515,949	-	-	577,567	515,949
Highways/streets	113,991	110,346	-	-	113,991	110,346
Economic development	-	3,625	-	-	-	3,625
Environmental protection	104,995	102,835	-	-	104,995	102,835
Interest on long-term debt	4,774	7,082	-	-	4,774	7,082
Water and sewer	-	-	1,341,081	1,364,315	1,341,081	1,364,315
Total expenses	<u>939,255</u>	<u>857,914</u>	<u>1,341,081</u>	<u>1,364,315</u>	<u>2,280,336</u>	<u>2,222,229</u>
Transfers	28,972	25,610	(28,972)	(25,610)	-	-
Increase in net assets	57,539	74,043	149,028	39,440	206,567	113,483
Net assets, July 1 as restated	<u>461,081</u>	<u>387,038</u>	<u>3,996,463</u>	<u>4,005,276</u>	<u>4,457,544</u>	<u>4,392,314</u>
Net assets, June 30	<u>\$ 518,620</u>	<u>\$ 461,081</u>	<u>\$ 4,145,491</u>	<u>\$ 4,044,716</u>	<u>\$ 4,664,111</u>	<u>\$ 4,505,797</u>

Governmental activities. Governmental activities increased the Town's net assets by \$57,539, thereby accounting for 27.86% of the increase in the net assets of the Town of Warrenton. Key elements of this increase are as follows:

- Receipt of a Police CHRP grant in the amount of \$ 33,009
- Collection of parking enforcement fees in the amount of \$ 9,494

Business-type activities: Business-type activities increased the Town of Warrenton's net assets by \$149,028. Key elements of this increase are as follows:

- Operating expenses of the wastewater treatment plant decreased by \$ 49,360
- Charges for services in the water and sewer fund increased \$ 120,706

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Warrenton. At the end of the current fiscal year, Town of Warrenton's fund balance available in the General Fund was \$ 208,096, while total fund balance reached \$ 488,486. 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 20.72% of general fund expenditures, while total fund balance represents 48.62% of the same amount.

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

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

Total expenditures were slightly less than budgeted.

Expenditures and revenues were favorable to budget resulting in an increase in fund balance of \$17,789, as opposed to a budgeted increase of \$0.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Wastewater Treatment Fund at the end of the fiscal year amounted to (\$161,786), and those for the Water and Sewer Fund amounted to \$354,223. The total growth (decrease) in net assets for both funds was (\$5,579) and \$154,607 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, 2011, totals \$4,271,936 (net of accumulated depreciation). These assets include buildings, improvements, land, machinery and equipment, and vehicles.

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

- Purchase of a work truck for the Water and Sewer department in the amount of \$31,025.
- Purchase of a leaf collection truck for the general fund in the amount of \$49,639.

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

(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,000	\$ 1,000	\$ 5,250	\$ 5,250	\$ 6,250	\$ 6,250
Buildings and systems	6,178	6,586	141,980	145,986	148,158	152,572
Water and Sewer Lines	-	-	3,644,500	3,584,033	3,644,500	3,584,033
Machinery and equipment	27,493	36,813	118,422	108,319	145,915	145,132
Vehicles and motorized equipment	132,987	125,424	76,003	64,106	208,990	189,530
Construction in progress			118,123	196,210	118,123	196,210
Total	\$ 167,658	\$ 169,823	\$ 4,104,278	\$ 4,103,904	\$ 4,271,936	\$ 4,273,727

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

Economic Factors and Next Year's Budgets and Rates

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

- Warrenton is a municipality of Warren County. Warren County has experienced an unemployment rate of 13.7% at June 30, 2011, which is much higher than the state average of 9.9%.

Budget Highlights for the Fiscal Year Ending June 30, 2012

Governmental Activities:

In the 2011-2012 budget the Town Board of Commissioners did not budget for any appropriation of fund balance. The Town anticipates the tax rate to remain the same. The Town anticipates continuing to receive a federal COPS grant that will fund an officer position for two additional years.

Business – type Activities:

The Town has obtained an \$870,000 loan from N C DENR to make the most urgently needed repairs at the wastewater treatment plant. The Town's share of the annual payments will be based on its share of the volume.

Requests for Information

This report is designed to provide an overview of the Town of Warrenton finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Mr. Jeffrey Parrott, Administrator, Town of Warrenton, P O Box 281, Warrenton, NC 27589.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government		Totals
	Governmental Activities	Business-type Activities	June 30, 2011
Assets			
Current Assets			
Cash and cash equivalents	\$ 132,111	\$ 359,396	\$ 491,507
Restricted Cash	79,466	-	79,466
Receivables (net):			
Taxes	59,050	-	59,050
Accrued interest receivable on taxes	11,737	-	11,737
Accounts Receivable	93,896	138,781	232,677
Inventory	-	11,380	11,380
Internal Balances	186,494	(186,494)	-
Total current assets	<u>562,754</u>	<u>323,063</u>	<u>885,817</u>
Capital Assets (Note 1)			
Land, non-depreciable improvements and construction in progress	1,000	123,373	124,373
Other capital assets, net of depreciation	166,658	3,980,905	4,147,563
Total Capital assets	<u>167,658</u>	<u>4,104,278</u>	<u>4,271,936</u>
Total Assets	<u>\$ 730,412</u>	<u>\$ 4,427,341</u>	<u>\$ 5,157,753</u>
Liabilities:			
Current Liabilities			
Accounts payable	\$ 3,481	\$ 39,534	\$ 43,015
Accrued interest payable	2,247	-	2,247
Current portion of vacation pay	10,725	12,498	23,223
Current portion of long-term debt	58,419	43,605	102,024
Long-term Liabilities			
Accrued vacation pay	11,771	8,841	20,612
Customer deposits	-	69,753	69,753
Non-current portion of long- term debt	125,149	107,619	232,768
Total Liabilities	<u>211,792</u>	<u>281,850</u>	<u>493,642</u>
Net Assets:			
Invested in capital assets, net of related debt	(15,910)	3,953,054	3,937,144
Restricted for			
Stabilization by State Statute	280,390	-	280,390
Streets	79,466	-	79,466
Unrestricted	174,674	192,437	367,111
Total Net Assets	<u>\$ 518,620</u>	<u>\$ 4,145,491</u>	<u>\$ 4,664,111</u>

The accompanying notes are an integral part of the financial statements

EXHIBIT 2

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 137,928	\$ 17,160	\$ -	\$ -	\$ (120,768)	\$ -	\$ (120,768)
Public Safety	577,567	9,494	38,434	-	(529,639)	-	(529,639)
Transportation	113,991	-	27,475	-	(86,516)	-	(86,516)
Economic Development	-	140,243	-	-	140,243	-	140,243
Environmental protection	104,995	-	-	-	(104,995)	-	(104,995)
Interest on long-term debt	4,774	-	-	-	(4,774)	-	(4,774)
Total governmental activities	\$ 939,255	\$ 166,897	\$ 65,909	\$ -	\$ (706,449)	\$ -	\$ (706,449)
Business-type activities:							
Wastewater Treatment	\$ 484,942	\$ 265,142	-	-	\$ -	\$ (219,800)	\$ (219,800)
Water and sewer	856,139	1,049,520	-	181,331	-	374,712	374,712
	\$ 1,341,081	\$ 1,314,662	\$ -	\$ 181,331	\$ -	\$ 154,912	\$ 154,912
Total primary government	\$ 2,280,336	\$ 1,481,559	\$ 65,909	\$ 181,331	\$ (706,449)	\$ 154,912	\$ (551,537)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					463,622	-	463,622
Other taxes					256,542	-	256,542
Unrestricted investment earnings					190	583	773
Miscellaneous					14,662	22,505	37,167
Transfers					28,972	(28,972)	-
Total general revenues, special items, transfer:					763,988	(5,884)	758,104
Change in net assets					\$ 57,539	\$ 149,028	\$ 206,567
Net assets - beginning					461,081	3,996,463	4,457,544
Net assets - ending					\$ 518,620	\$ 4,145,491	\$ 4,664,111

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

FUND FINANCIAL STATEMENTS

TOWN OF WARRENTON, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

EXHIBIT 3

	GENERAL FUND	TOTAL GOVERNMENTAL FUNDS
Assets		
Cash and cash equivalents	\$ 132,111	\$ 132,111
Restricted Cash	79,466	79,466
Receivables (net):		
Taxes	59,050	59,050
Property taxes receivable from the County	2,965	2,965
Franchise Tax Receivable	19,051	19,051
Sales Tax Receivable	24,725	24,725
Sales Tax Refund Due	35,235	35,235
ABC Receivable	-	-
Grant receivable	11,920	11,920
Due from other funds	186,494	186,494
Total Assets	551,017	551,017
 Liabilities and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	3,481	3,481
Deferred revenues	59,050	59,050
Total Liabilities	62,531	62,531
 Fund Balances:		
Restricted		
Stabilization by State Statute	280,390	280,390
Streets	79,466	79,466
Committed		
Small Town Main Street	3,000	3,000
Feasibility study Town Hall	12,757	12,757
Unassigned	112,873	112,873
Total Fund Balances	488,486	488,486
Total Liabilities and Fund Balances	\$ 551,017	\$ 551,017

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

TOWN OF WARRENTON, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

EXHIBIT 3

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

Total equity and other credits (Exhibit 4)	\$	488,486
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		167,658
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred.		11,737
Liabilities for earned but deferred revenues in fund statements.		59,050
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the fund statements		<u>(208,311)</u>
Net assets of governmental activities (Exhibit 1)	\$	<u>518,620</u>

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

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>GENERAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS JUNE 30, 2011</u>
REVENUES :		
Ad valorem taxes	\$ 439,766	\$ 439,766
Other taxes and licenses	161,440	161,440
Restricted intergovernmental	65,909	65,909
Unrestricted intergovernmental	95,102	95,102
Permits and fees	11,230	11,230
Sales, services and fees	170,329	170,329
Investment earnings	190	190
Total Revenues	<u>943,966</u>	<u>943,966</u>
EXPENDITURES		
Current:		
General government	136,292	136,292
Public safety	534,797	534,797
Economic & Physical development	-	-
Transportation	152,299	152,299
Environmental protection	103,984	103,984
Debt service		
Principal	69,475	69,475
Interest	7,845	7,845
Total Expenditures	<u>1,004,692</u>	<u>1,004,692</u>
OTHER FINANCING SOURCES (USES)		
Installment purchase obligations issued	49,543	49,543
Sale of capital assets	-	-
Transfers	28,972	28,972
Total other financing sources (uses)	<u>78,515</u>	<u>78,515</u>
NET CHANGE IN FUND BALANCE	17,789	17,789
FUND BALANCE, BEGINNING	<u>470,697</u>	<u>470,697</u>
FUND BALANCE, ENDING	<u>\$ 488,486</u>	<u>\$ 488,486</u>

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

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

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

Net changes in fund balances - total governmental funds (Exhibit 4)	\$	17,789
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital Outlay	49,639	
Depreciation Expense	(51,804)	(2,165)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
Change in Deferred Revenue		23,856
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Long-Term Debt Issued	(49,543)	
Repayment of Principal of Long-Term Debt	69,475	19,932
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		(1,873)
Total changes in net assets of governmental activities	\$	57,539

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

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund			Variance Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES :				
Ad valorem taxes	\$ 444,656	\$ 444,656	\$ 439,766	\$ (4,890)
Other taxes and licenses	156,300	159,506	161,440	1,934
Restricted intergovernmental	42,268	59,970	65,909	5,939
Unrestricted intergovernmental	92,300	111,678	95,102	(16,576)
Permits & fees	16,939	16,939	11,230	(5,709)
Sales, services and fees	162,350	167,945	170,329	2,384
Investment earnings	300	300	190	(110)
Total Revenues	915,113	960,994	943,966	(17,028)
EXPENDITURES				
General government	141,263	165,114	136,292	28,822
Public safety	472,840	515,786	534,797	(19,011)
Transportation	126,363	175,906	152,299	23,607
Environmental protection	109,155	109,155	103,984	5,171
Debt service				
Principal	64,994	64,994	69,475	(4,481)
Interest	7,845	7,845	7,845	-
Total Expenditures	922,460	1,038,800	1,004,692	34,108
REVENUES OVER (UNDER) EXPENDITURE:	(7,347)	(77,806)	(60,726)	(51,136)
OTHER FINANCING SOURCES (USES):				
Installment purchase obligations issued	-	49,543	49,543	-
Sale of capital assets	-	-	-	-
Transfers	7,347	28,263	28,972	709
Fund Balance appropriated	-	-	-	-
Total other financing sources (uses)	7,347	77,806	78,515	709
NET CHANGE IN FUND BALANCE	\$ -	\$ -	17,789	\$ 17,789
FUND BALANCE, BEGINNING			470,697	
FUND BALANCE, ENDING			\$ 488,486	

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

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	ENTERPRISE FUNDS		
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	TOTAL JUNE 30, 2011
ASSETS:			
CURRENT ASSETS			
Cash and Investments	\$ 14,970	\$ 344,426	\$ 359,396
Accounts receivable (net)	26,245	112,536	138,781
Inventory	-	11,380	11,380
Total current assets	41,215	468,342	509,557
NONCURRENT ASSETS			
Land and construction in progress	-	123,373	123,373
Other capital assets net of depreciation	14,169	3,966,736	3,980,905
Total noncurrent assets	14,169	4,090,109	4,104,278
Total assets	\$ 55,384	\$ 4,558,451	\$ 4,613,835
LIABILITIES AND FUND EQUITY:			
CURRENT LIABILITIES			
Accounts payable	\$ -	\$ 39,534	\$ 39,534
Retirement payable	-	-	-
Due to other funds	186,494	-	186,494
Current portion of accrued vacation pay	7,666	4,832	12,498
Current portion of long-term debt	-	43,605	43,605
Total current liabilities	194,160	87,971	282,131

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

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	ENTERPRISE FUNDS		TOTAL
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	JUNE 30, 2011
NONCURRENT LIABILITIES			
Accrued vacation pay	8,841	-	8,841
Customer deposits	-	69,753	69,753
Long-term Portion of debt	-	107,619	107,619
Total noncurrent liabilities	8,841	177,372	186,213
Total liabilities	203,001	265,343	468,344
NET ASSETS			
Invested in capital assets, net of related debt	14,169	3,938,885	3,953,054
Unrestricted	(161,786)	354,223	192,437
Total net assets	\$ (147,617)	\$ 4,293,108	\$ 4,145,491

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

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	ENTERPRISE FUNDS		TOTALS
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	JUNE 30, 2011
OPERATING REVENUES			
Charges for services	\$ 265,142	\$ 1,049,520	\$ 1,314,662
Total operating revenues	265,142	1,049,520	1,314,662
OPERATING EXPENSES			
Administration	227,598	227,312	454,910
Water and sewer operations	-	385,545	385,545
Water collection and treatment	251,719	-	251,719
Depreciation	5,625	243,282	248,907
Total	484,942	856,139	1,341,081
OPERATING INCOME (LOSS)	(219,800)	193,381	(26,419)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	28,054	758	28,812
Proceeds of sale of equipment	-	-	-
Interest earned	-	583	583
Interest paid	-	(6,307)	(6,307)
Total Nonoperating Revenues (Expenses)	28,054	(4,966)	23,088
NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(191,746)	188,415	(3,331)
Capital Contribution	-	181,331	181,331
Transfers from other funds	215,139	-	215,139
Transfers to other funds	(28,972)	(215,139)	(244,111)
Change in net assets	(5,579)	154,607	149,028
TOTAL NET ASSETS, BEGINNING AS PREVIOUSLY REPORTED	(142,038)	4,186,754	4,044,716
PRIOR PERIOD ADJUSTMENT	-	(48,253)	(48,253)
NET ASSETS, AS RESTATED	(142,038)	4,138,501	3,996,463
TOTAL NET ASSETS, ENDING	\$ (147,617)	\$ 4,293,108	\$ 4,145,491

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

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	BUSINESS-TYPE ACTIVITIES		
	ENTERPRISE FUNDS		
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	TOTALS JUNE 30, 2011
Cash Flows from Operating Activities:			
Cash received from customers	\$ 304,111	\$ 1,068,228	\$ 1,372,339
Cash paid for goods and services	(264,901)	(566,230)	(831,131)
Cash paid to employees	(218,037)	(122,134)	(340,171)
Customer deposits returned	-	6,305	6,305
Net Cash Provided (Used) By Operating Activities	<u>(178,827)</u>	<u>386,169</u>	<u>207,342</u>
Cash Flows from Noncapital Financing Activities:			
Due to (from) other funds	(13,124)	-	(13,124)
Transfers from other funds	215,139	-	215,139
Transfers to other funds	(28,972)	(215,139)	(244,111)
Total Cash Flows From Noncapital Financing Activities	<u>173,043</u>	<u>(215,139)</u>	<u>(42,096)</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of fixed assets	(7,300)	(241,981)	(249,281)
Proceeds of sale of equipment	-	-	-
State grants	-	181,331	181,331
Principal paid on debt	-	(45,665)	(45,665)
Interest paid on debt	-	(6,307)	(6,307)
Installment obligations Issued	-	30,505	30,505
Miscellaneous	28,054	758	28,812
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>20,754</u>	<u>(81,359)</u>	<u>(60,605)</u>
Cash Flows from Investing Activities:			
Interest on investments	-	583	583
Net Cash Flows from Investing Activities	<u>-</u>	<u>583</u>	<u>583</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,970	90,254	105,224
Cash and Cash Equivalents - Beginning of the Year	-	254,172	254,172
Cash and Cash Equivalents - End of the Year	<u>\$ 14,970</u>	<u>\$ 344,426</u>	<u>\$ 359,396</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	TOTALS JUNE 30, 2011
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:			
Operating Income	\$ (219,800)	\$ 193,381	\$ (26,419)
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities			
Depreciation	5,625	243,282	248,907
Change in assets and liabilities:			
Accounts receivable	38,969	(29,545)	9,424
Accounts payable & other liabilities	(8,394)	(22,685)	(31,079)
Customer deposits	-	6,305	6,305
Accrued vacation	4,773	(4,569)	204
Net Cash Provided By Operating Activities	<u>\$ (178,827)</u>	<u>\$ 386,169</u>	<u>\$ 207,342</u>

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

The Town reports the following major governmental fund:

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

The Town reports the following major enterprise funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad-valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in altered procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Warren County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Warrenton. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Warren County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown a receivable in these financial statements and are offset by deferred revenues.

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

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

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Grant Projects, Special Revenue and Capital Projects Fund, which are consolidated with the operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. The governing board must approve all amendments. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. ASSETS, LIABILITIES AND FUND EQUITY

1. Deposits and Investments

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

State law [G.S. 159-30 (c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

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

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

2. Cash and Cash Equivalents

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

3. Restricted Assets

The unexpended bond proceeds of Water and Sewer Fund serial bonds issued by the Town are classified as restricted assets for the enterprise fund because their use is completely restricted to the purpose for which the bonds were originally issued. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. There were no outstanding Water and Sewer Fund Serial bonds at June 30, 2011.

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, 2010. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowance For Doubtful Accounts

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

6. Inventory and Prepaid Items

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

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
JUNE 30, 2011

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

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

8. Long-Term Obligations

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

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

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned, with the exception of law enforcement officers, where there is no limit on the amount of accumulation. For the Town's proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded within the funds as the leave is earned. The City has assumed a last-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements

The Town's sick leave policy provides for a maximum accrual of sick leave of 30 days. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave had been made.

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

10. Net Assets / Fund Balances

Net Assets

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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. Any changes or removal of specific purpose requires majority action by the governing body.

Committed for Small Town Main Street – portion of fund balance assigned by the Board for the Small Town Main Street program.

Committed for feasibility study – portion of fund balance assigned by the Board for a feasibility study for the renovation of Town Hall.

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

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

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

For the fiscal year ended June 30, 2011, the Wastewater Treatment Fund had a deficit in Net Assets of \$147,617. This will be addressed in fiscal year 2011-2012.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2011, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for public safety activities by \$19,011. This over-expenditure occurred because of the purchase of materials and non-capital items. The Town's expenditures also exceeded the authorized appropriations made for debt service. This over-expenditure occurred because a loan was budgeted according to the way it has been paid in the past and broken down between the general fund and the enterprise funds. This however, was the final year of the payment and the enterprise fund did not have a remaining loan balance as high as the appropriated amount. Management and the Board will more closely review the budget reports to ensure compliance in future years.

III. DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

At June 30, 2011, the Town's deposits had a carrying amount of \$ 529,521 and a bank balance of \$449,342. Of this bank balance, \$250,000 was covered by federal depository insurance and the

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

remainder was covered by collateral held under the pooling method. At June 30, 2011, the Town's petty cash fund totaled \$145.

2. Investments

As of June 30, 2011, the Town of Warrenton had \$41,307 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit risk rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables

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

<u>FUND</u>	<u>6/30/2011</u>	
General Fund:		
Taxes Receivable	\$ 59,050	
Receivable from the County	2,965	
Accounts Receivable	24,725	
Franchise Tax Receivable	19,051	
Accrued Interest Receivable	11,737	
Grant Receivable	11,920	
Sales Tax Receivable	<u>35,235</u>	
Total General Fund		\$ 164,683
Enterprise Fund:		
Accounts receivable		<u>138,781</u>
Total All Funds		<u>\$ 303,464</u>

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2011 was as follows:

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 1,000			\$ 1,000
Capital Assets being depreciated:				
Buildings	24,111			24,111
Equipment	147,261			147,261
Vehicles	<u>366,097</u>	<u>49,639</u>	-	<u>415,736</u>
Total capital assets being depreciated	537,469	49,639		587,108
Less accumulated depreciation for:				
Buildings	17,525	408		17,933
Equipment	110,448	9,320		119,768
Vehicles	<u>240,673</u>	<u>42,076</u>	-	<u>282,749</u>
Total accumulated depreciation	368,646	51,804		420,450
Total capital assets being depreciated, net	<u>168,823</u>			<u>166,658</u>
Government activity capital assets, net	<u>\$169,823</u>			<u>\$ 167,658</u>

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

General government	\$ 408
Public Safety	40,157
Transportation	<u>11,239</u>
Total depreciation expense	\$ 51,804

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

<u>Business-type activities</u>	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Enterprise Fund:				
Capital assets not being depreciated:				
Land	\$ 5,250			\$ 5,250
Construction in progress	<u>196,210</u>	<u>188,874</u>	<u>266,961</u>	<u>118,123</u>
Total assets not Being depreciated	201,460	188,874	266,961	123,373
Capital Assets being depreciated:				
Building renovations	160,232			160,232
Furniture & Equipment	262,940	29,382		292,322
Vehicles	172,925	31,025		203,950
Water & Sewer lines	<u>4,996,510</u>	<u>266,961</u>	<u>-</u>	<u>5,263,471</u>
Total capital assets being depreciated	5,592,607	327,368		5,919,975
Less accumulated depreciation for:				
Building renovations	14,246	4,006		18,252
Furniture & Equipment	154,621	19,279		173,900
Vehicles	108,819	19,128		127,947
Water & Sewer Lines	<u>1,412,477</u>	<u>206,494</u>	<u>-</u>	<u>1,618,971</u>
Total accumulated depreciation	1,690,163	248,907		1,939,070
Total capital assets being depreciated, net	3,902,444			<u>3,980,905</u>
Enterprise Fund capital assets, net	\$ <u>4,103,904</u>			\$ <u>4,104,278</u>

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Construction commitments

The government has active construction projects as of June 30, 2011. At year-end, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water and Sewer Projects	118,123	529,651

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 an actuarially determined rate. For the Town, the current rate for employees engaged in law enforcement is 9.28% and 5% respectively, of annual covered payroll. The contribution requirements of members and of the Town of Warrenton is established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2011 and 2010 were \$15,719 and \$12,908, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description.*

The Town of Warrenton administers a public employee retirement system (the

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

“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, 2010, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>3</u>
Total	3

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

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

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

3. *Contributions.*

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

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

c. Simple IRA

Effective July 1, 2008, the Town set up a Simple IRA for employees not in law enforcement. For those employees who participate in the Simple IRA plan, the Town provides a 3%

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

match. Retirement expense for the Town for the Years ended June 30, 2011 and 2010, was \$ 11,180 and \$10,955, respectively.

2. Deferred Revenues / Unearned Revenues

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

	<u>Deferred Revenue</u>
Taxes Receivable	<u>\$59,050</u>

3. Risk Management

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

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. The Town has made the decision not to purchase flood insurance at this time. The Town does not deem the risk of flooding to outweigh the cost of insurance.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Town Administrator is bonded for \$50,000 and the Town Clerk is bonded for \$50,000. The remaining employees that have access to funds are bonded for \$5,000 each.

4. Claims, Judgments and Contingent Liabilities

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

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

5. Long-Term Obligations

a. Capital Leases

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

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

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

An agreement was executed on July 3, 2007 for \$21,165 to purchase a police car. This agreement requires three annual payments of \$7,603.72, including interest at 3.84% per annum. This lease was paid in full in the current fiscal year.

An agreement was executed on July 3, 2007 for \$22,052 to purchase a police car. This agreement requires three annual payments of \$7,961.49, including interest at 4.1% per annum. This lease was paid in full in the current fiscal year.

An agreement was executed on July 3, 2007 for \$27,000 to purchase police equipment. This agreement requires three annual payments of \$9,747.88, including interest at 4.1% per annum. This lease was paid in full in the current fiscal year.

An agreement was executed on August 16, 2007 for \$31,000 to purchase a jetter and flowmeter. This agreement requires three annual payments of \$ 11,211.11, including interest at 4.19% per annum. This lease was paid in full in the current fiscal year.

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

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

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

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

An agreement was executed on October 20, 2010 to purchase a leaf collection truck. This agreement requires five annual payments of \$11044.60, including interest at 3.73% per annum.

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

The following is an analysis of the assets recorded under capital leases at June 30, 2011:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Vehicles	\$ 256,148	\$ 65,886	\$ 190,262
Equipment	\$ 193,255	\$ 57,587	\$ 135,668

The future minimum lease obligations and the net present value of these lease payments as of June 30, 2011 were as follows:

<u>YEAR ENDING JUNE 30</u>	<u>GENERAL LONG- TERM DEBT</u>	<u>WATER AND SEWER FUND</u>
2012	63,450	49,361
2013	55,375	49,362
2014	16,915	17,869
2015	16,916	6,964
2016	16,914	6,965
2017-2021	29,346	34,826
2022	5,869	6,965
Total minimum lease payments	<u>204,785</u>	<u>172,312</u>
Less: amount representing interest	<u>(21,217)</u>	<u>(21,088)</u>
Present value of minimum lease payments	<u>\$ 183,568</u>	<u>\$ 151,224</u>

TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

b. Changes in Long-Term Liabilities

	General Long-term Debt Balance <u>7-1-10</u>	<u>Additions</u>	<u>Retirements</u>	General Long-term Debt Balance <u>6-30-11</u>	Current Portion of <u>Balance</u>
<i>Governmental activities:</i>					
Capital Lease	\$ 203,500	\$ 49,543	\$ 69,475	\$ 183,568	\$ 58,419
Compensated absences	<u>17,552</u>	<u>15,669</u>	<u>10,725</u>	<u>22,496</u>	<u>10,725</u>
Governmental activity					
long-term liabilities	\$ <u>221,052</u>	\$ <u>65,212</u>	\$ <u>80,200</u>	\$ <u>206,064</u>	\$ <u>69,144</u>
<i>Business-type activities:</i>					
Capital Lease	\$ 166,384	\$ 30,505	\$ 45,665	\$ 151,224	\$ 43,605
Compensated absences	<u>21,135</u>	<u>12,702</u>	<u>12,498</u>	<u>21,339</u>	<u>12,498</u>
Total business-type activities	\$ <u>187,519</u>	\$ <u>43,207</u>	\$ <u>58,163</u>	\$ <u>172,563</u>	\$ <u>56,103</u>

C. Internal Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2011, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Wastewater Fund	186,494	Loan

Transfers to/from Other Funds:

Transfers to/from other funds at June 30, 2011, consist of the following:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Reason</u>
Wastewater Fund	General Fund	\$ 28,972	Operating transfer
Water Sewer	Wastewater Fund	\$ 215,139	Operating transfer

III. JOINTLY GOVERNED ORGANIZATION

The Kerr-Tarr Council of Government is a voluntary association of five county and 15 city and town governments, including the Town of Warrenton, established to coordinate federal and State projects of a planning nature in the five county area in central North Carolina. Each county, city, and town appoints one member to the Council's governing body and his governing body selects the management and determines the budget and financing requirements of the Council. The Town contributed \$ 406 to the Council during the fiscal year ended June 30, 2011.

**TOWN OF WARRENTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

IV. RESTATEMENT

In prior years, an allowance for doubtful accounts for water and sewer accounts receivable had not been recorded. The receivable amount has continued to grow with more accounts included in the collectible figure that had no payments received for over a year. It was deemed necessary to restate fund balance in order to record an allowance for doubtful accounts for the prior year.

	Fund Balance as originally reported June 30, 2010	Restatement	Fund Balance as restated June 30, 2010
Water & Sewer Fund	4,186,754	48,253	4,138,501

V. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

VI. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

The Town has evaluated events and transactions that occurred between June 30, 2011 and October 26, 2011, which is the date that the financials were available to be issued, for possible recognition or disclosure in the financial statements.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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

FOR THE YEAR ENDED JUNE 30, 2011

(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011		VARIANCE POSITIVE (NEGATIVE)	2010
	BUDGET	ACTUAL		ACTUAL
REVENUES				
Ad valorem taxes				
Taxes	\$ 441,656	\$ 438,574	\$ -	\$ 452,149
Penalties and interest	3,000	1,192		3,422
Total	444,656	439,766	(4,890)	455,571
Other taxes and licenses:				
Local option sales taxes	142,000	144,416		141,301
ABC revenue	13,806	13,806		10,596
Privilege licenses	3,700	3,218		3,705
Total	159,506	161,440	1,934	155,602
Unrestricted intergovernmental revenues				
Utility franchise tax	95,578	89,215		81,115
Beer and wine tax	-	4,028		1,315
Sales tax refund	14,300	-		1,557
Motor fuels tax refunds	1,800	1,859		1,901
Total	111,678	95,102	(16,576)	85,888
Restricted intergovernmental revenues				
"State Street Aid" grant	27,000	27,475		27,079
Police CHRP grant	27,546	33,009		-
N C Highway safety grant	5,424	5,425		15,268
Total	59,970	65,909	5,939	42,347
Permits and fees				
Cable T.V. Franchise	1,339	1,531		1,339
Auto tags	-	-		-
Code enforcement	500	-		-
Parking enforcement	15,000	9,494		-
Zoning fees	100	205		85
Total	\$ 16,939	\$ 11,230	\$ (5,709)	\$ 1,424

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011		VARIANCE POSITIVE (NEGATIVE)	2010
	BUDGET	ACTUAL		ACTUAL
Sales and Services				
Contract maintenance	\$ 150	\$ -	\$ -	\$ -
Landfill Fees	112,000	140,243		138,558
Back Infrastructure	-	-		-
Cell tower rent	15,840	17,160		14,694
Household debris fee	28,000	-		-
Miscellaneous	11,955	12,926		4,561
Total	167,945	170,329	2,384	157,813
Investment earnings				
General Fund	300	190		277
Total	300	190	(110)	277
 Total revenues	\$ 960,994	\$ 943,966	\$ (17,028)	\$ 898,922

The accompanying notes are an integral part of the financial statements

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

FOR THE YEAR ENDED JUNE 30, 2011

(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011		VARIANCE POSITIVE (NEGATIVE)	2010
	BUDGET	ACTUAL		ACTUAL
EXPENDITURES				
General Government				
Governing Body				
Salaries	\$ 1,500	\$ 1,500	\$ -	\$ 1,500
Operating Expenses	407	805		252
Total	<u>1,907</u>	<u>2,305</u>	<u>(398)</u>	<u>1,752</u>
Administration				
Salaries and employee benefits	119,361	114,265		100,613
Other operating expenditures	85,855	69,291		51,485
Administrative fee paid by Water and Sewer	(42,009)	(49,569)		(38,575)
Total	<u>163,207</u>	<u>133,987</u>	<u>29,220</u>	<u>113,523</u>
Total general government	<u>165,114</u>	<u>136,292</u>	<u>28,822</u>	<u>115,275</u>
Public Safety				
Police				
Salaries and employee benefits	326,975	292,053		274,564
Capital outlay	-	-		98,051
Other operating expenditures	118,636	174,759		135,664
Total	<u>445,611</u>	<u>466,812</u>	<u>(21,201)</u>	<u>508,279</u>
Fire				
Other operating expenditures	70,175	67,985		68,053
Total	<u>70,175</u>	<u>67,985</u>	<u>2,190</u>	<u>68,053</u>
Total public safety	<u>\$ 515,786</u>	<u>\$ 534,797</u>	<u>\$ (19,011)</u>	<u>\$ 576,332</u>

The accompanying notes are an integral part of the financial statements

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

FOR THE YEAR ENDED JUNE 30, 2011

(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011		VARIANCE POSITIVE (NEGATIVE)	2010
	BUDGET	ACTUAL		ACTUAL
Transportation and Utilities				
Street Repair and Construction				
Salaries and employee benefits	\$ 53,331	\$ 48,429		\$ 47,917
Capital outlay	49,543	49,639		-
Operating expenses	73,032	54,231		56,943
Total	<u>175,906</u>	<u>152,299</u>	<u>23,607</u>	<u>104,860</u>
Total transportation and utilities	<u>175,906</u>	<u>152,299</u>	<u>23,607</u>	<u>104,860</u>
Environmental Protection				
Sanitation				
Salaries and employee benefits	70,875	68,309		65,652
Other operating expenditures	38,280	35,675		37,234
Landfill Fees	-	-		-
Total	<u>109,155</u>	<u>103,984</u>	<u>5,171</u>	<u>102,886</u>
Total environmental protection	<u>109,155</u>	<u>103,984</u>	<u>5,171</u>	<u>102,886</u>
Debt Service				
Principal	64,994	69,475		31,626
Interest	7,845	7,845		5,501
Total	<u>72,839</u>	<u>77,320</u>	<u>(4,481)</u>	<u>37,127</u>
Total expenditures	<u>1,038,800</u>	<u>1,004,692</u>	<u>34,108</u>	<u>936,480</u>
Revenues over (under) expenditures	<u>\$ (77,806)</u>	<u>\$ (60,726)</u>	<u>\$ 17,080</u>	<u>\$ (37,558)</u>

The accompanying notes are an integral part of the financial statements

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

FOR THE YEAR ENDED JUNE 30, 2011

(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011		VARIANCE POSITIVE (NEGATIVE)	2010
	BUDGET	ACTUAL		ACTUAL
Other Financing Sources (uses)				
Installment Purchase Obligations Issued	49,543	49,543	-	77,421
Sale of capital assets	-	-	-	18,772
Transfers	28,263	28,972	709	25,610
Fund balance appropriated	-	-	-	-
Total other financing sources (uses)	<u>77,806</u>	<u>78,515</u>	<u>709</u>	<u>121,803</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ -</u>	17,789	<u>\$ 17,789</u>	84,245
FUND BALANCE, BEGINNING		<u>470,697</u>		<u>386,452</u>
FUND BALANCE, ENDING		<u>\$ 488,486</u>		<u>\$ 470,697</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
WASTEWATER TREATMENT FUND
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Actual Totals for the Year Ended June 30, 2010)

	2011		VARIANCE POSITIVE (NEGATIVE)	2010
	BUDGET	ACTUAL		ACTUAL
REVENUES:				
Charges for services:				
Wastewater Treatment	\$ 313,536	\$ 265,142	\$ (48,394)	\$ 289,334
Total operating revenues	313,536	265,142	(48,394)	289,334
NONOPERATING REVENUES				
Miscellaneous	10,500	28,054	17,554	31,496
Total Nonoperating Revenues	10,500	28,054	17,554	31,496
Total Revenues	324,036	293,196	(30,840)	320,830
OPERATING EXPENSES				
Salaries and benefits	211,907	218,037	(6,130)	195,621
Audit	4,500	5,842	(1,342)	5,556
Telephone and postage	6,000	4,851	1,149	6,764
Freight	3,800	3,204	596	4,428
Office supplies	1,600	1,180	420	1,257
Light and Heat	52,000	49,550	2,450	55,495
Materials and supplies	44,500	46,103	(1,603)	44,939
Vehicle maintenance	3,500	2,433	1,067	2,983
Certified lab expense	3,200	2,321	879	2,392
Truck expense	7,828	6,416	1,412	7,512
Insurance and bonds	24,332	27,127	(2,795)	23,680
Equipment and plant maintenance	60,000	31,361	28,639	63,473
Uniforms	3,800	4,480	(680)	3,649
Sludge hauling	65,000	47,161	17,839	73,959
Kerr-Pamlico Basin Association	1,000	-	1,000	978
Permits & Fees	7,000	5,374	1,626	5,930
Beaver control	2,000	2,000	-	2,000
OSHA Compliance	1,200	107	1,093	220
Lab Analysis	19,500	15,982	3,518	17,727

The accompanying notes are an integral part of the financial statements

EXHIBIT B-1

**TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
WASTEWATER TREATMENT FUND
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Actual Totals for the Year Ended June 30, 2010)**

	2011		VARIANCE POSITIVE (NEGATIVE)	2010
	BUDGET	ACTUAL		ACTUAL
Miscellaneous	10,000	2,864	7,136	2,880
Installment financing payments	-	-	-	-
Capital outlay	-	7,300	(7,300)	7,083
Contingency	10,000	-	10,000	5,000
Contract maintenance	3,800	2,819	981	2,326
Continuing education	700	105	595	125
Total	<u>547,167</u>	<u>486,617</u>	<u>60,550</u>	<u>535,977</u>
OTHER FINANCING SOURCES (USES)				
Transfer to General Fund	(28,263)	(28,972)	(1,803)	(25,610)
Transfer to Capital Projects	-	-	(5,491)	(5,491)
Transfer from Water Fund	251,394	215,139	(36,255)	252,367
Fund balance appropriated	-	-	-	0
Total Other Financing Sources (Uses)	<u>223,131</u>	<u>186,167</u>	<u>(43,549)</u>	<u>221,266</u>
Revenues and other sources over (under) expenses	<u>\$ -</u>	<u>\$ (7,254)</u>	<u>\$ (7,254)</u>	<u>\$ 6,119</u>
Reconciliation of modified accrual basis to full accrual basis:				
Excess of Revenues over (under) Expenditures		(7,254)		6,119
Payments to Wastewater		-		-
Capital Outlay		7,300		7,083
Principal retirements		-		-
Depreciation		<u>(5,625)</u>		<u>(4,190)</u>
Net Income		<u>\$ (5,579)</u>		<u>\$ 9,012</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
WATER AND SEWER FUND
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Actual Totals for the Year Ended June 30, 2010)

	2011		VARIANCE POSITIVE (NEGATIVE)	2010
	BUDGET	ACTUAL		ACTUAL
REVENUES:				
Charges for services:				
Water and sewer sales	\$ 991,938	\$ 1,032,780	\$ 40,842	\$ 881,742
Water and sewer taps	1,600	13,007	11,407	2,530
Capital reserve revenue	60,066	3,733	(56,333)	44,542
Total operating revenues	<u>1,053,604</u>	<u>1,049,520</u>	<u>52,249</u>	<u>928,814</u>
NONOPERATING REVENUES				
Miscellaneous Revenue	200	758	(558)	378
Interest earned	100	583	483	390
Total nonoperating revenues	300	1,341	(75)	768
Total Revenues	<u>1,053,904</u>	<u>1,050,861</u>	<u>52,174</u>	<u>929,582</u>
OPERATING EXPENSES				
Salaries and benefits	141,880	122,134	19,746	135,188
Water purchases	204,540	193,985	10,555	197,879
Administrative fee	42,009	49,569	(7,560)	38,575
Audit	5,750	5,842	(92)	5,528
Equipment maintenance	24,269	18,128	6,141	18,699
Water tank maintenance	15,553	14,174	1,379	10,351
Building maintenance	600	636	(36)	407
Contracted services	55,000	33,822	21,178	39,206
Insurance and bonds	22,841	27,916	(5,075)	24,356
Group insurance	27,107	23,407	3,700	21,893
Departmental supplies & materials	63,350	57,789	5,561	61,408
Telephone and postage	12,500	9,738	2,762	9,247
Freight	750	2,372	(1,622)	950
Office supplies	3,000	2,985	15	2,300
Lights & heat	9,600	8,743	857	8,433
Miscellaneous	1,500	7,924	(6,424)	154
Truck expense	15,785	16,848	(1,063)	16,804
Continuing Education	2,000	1,209	791	672
Contingency	2,015	-	2,015	78
Travel	600	97	503	40
Installment financing payments	41,119	45,665	(4,546)	29,459
Capital Outlay	59,474	53,107	6,367	65,669
Envirolink	12,000	11,619	381	13,000
Dues & permits	3,400	3,920	(520)	3,010
Total	<u>\$ 766,642</u>	<u>\$ 711,629</u>	<u>\$ 55,013</u>	<u>\$ 703,306</u>

The accompanying notes are an integral part of the financial statements

TOWN OF WARRENTON, NORTH CAROLINA
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
WATER AND SEWER FUND
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Actual Totals for the Year Ended June 30, 2010)

	2011		VARIANCE POSITIVE (NEGATIVE)	2010
	BUDGET	ACTUAL		ACTUAL
OTHER FINANCING SOURCES (USES):				
Transfer to Capital Reserve	(60,066)			
Transfer to Wastewater Fund	(251,394)	(215,139)	36,255	(252,367)
Interest Expense	(6,307)	(6,307)	-	(5,330)
Proceeds of capital lease	30,505	30,505	-	60,000
Proceeds of sale of equipment	-	-	-	2,013
Fund balance appropriated	-	-	-	-
Total Financing Sources (Uses)	<u>(287,262)</u>	<u>(190,941)</u>	<u>36,255</u>	<u>(195,684)</u>
Total Expenditures	<u>1,053,904</u>	<u>902,570</u>	<u>91,268</u>	<u>898,990</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>148,291</u>	<u>\$ 148,291</u>	<u>30,592</u>
Reconciliation from budgetary basis (modified accrual) to full accrual basis:				
Revenues and other Sources over Expenditures and other uses		148,291		30,592
Budgetary Appropriations:				
Capital Outlay		241,981		283,373
Transfer to Water & Sewer Capital Projects				
Water & Sewer Capital Projects revenues over (under) expenditures		(7,543)		(29,943)
Principal Retirements		45,665		29,459
Proceeds of capital lease		(30,505)		(60,000)
Transfer to Wastewater Depreciation		<u>(243,282)</u>		<u>(223,053)</u>
Net Income		<u>\$ 154,607</u>		<u>\$ 30,428</u>

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

From Inception and For the Fiscal Year Ended June 30 2011

	PROJECT AUTHORIZATION	PRIOR YEARS	ACTUAL		VARIANCE POSITIVE (NEGATIVE)
			CURRENT YEAR	TOTAL TO DATE	
Revenues:					
North Carolina Rural Economic Development Center Inc:					
Ridgeway Street Sidewalk	\$ 119,359	\$ 20,090	\$ 75,948	\$ 96,038	\$ (23,321)
Sanitary Sewer Evaluation	339,500	144,423	105,383	249,806	(89,694)
Sewer System Rehab	250,000	-	-	-	(250,000)
Total Revenues	<u>708,859</u>	<u>164,513</u>	<u>181,331</u>	<u>345,844</u>	<u>(363,015)</u>
Expenditures:					
Ridgeway Sidewalk Project	119,359	12,831	83,882	96,713	22,646
Sanitary Sewer Evaluation	339,500	183,380	83,582	266,962	72,538
Sewer System Rehab	500,000	-	21,410	21,410	478,590
Total Expenditures	<u>958,859</u>	<u>196,211</u>	<u>188,874</u>	<u>385,085</u>	<u>573,774</u>
Revenues over (under) Expenditures	(250,000)	(31,698)	(7,543)	(39,241)	210,759
Other Financing Sources (Uses)					
Transfer from General Fund	-	27,889	-	27,889	27,889
Transfer from Water & Sewer Funds	-	94,067	-	94,067	94,067
Transfer from Waste Water Treatment	-	58,231	-	58,231	58,231
Transfer from Special Revenue Fund	-	(3,397)	-	(3,397)	(3,397)
Installment purchase obligation issued	250,000	-	-	-	(250,000)
Total Other Financing Sources (Uses)	<u>250,000</u>	<u>176,790</u>	<u>-</u>	<u>176,790</u>	<u>(73,210)</u>
Revenues & Other Sources					
Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ 145,092</u>	<u>\$ (7,543)</u>	<u>\$ 137,549</u>	<u>\$ 137,549</u>

The accompanying notes are an integral part of the financial statements

OTHER SCHEDULES

TOWN OF WARRENTON, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
 June 30, 2011

FISCAL YEAR	UNCOLLECTED BALANCE June 30, 2010	ADDITIONS	COLLECTIONS	ABATEMENTS & ADJUSTMENTS	UNCOLLECTED BALANCE June 30, 2011
2010-2011	\$ -	\$ 462,195	\$ 425,862	\$ -	\$ 36,333
2009-2010	14,102		9,511	44	4,547
2008-2009	4,495		796		3,699
2007 - 2008	3,493		826	-	2,667
2006 - 2007	2,609		380	-	2,229
2005 - 2006	2,868		421	-	2,447
2004 - 2005	2,459		166	-	2,293
2003 - 2004	1,967		135	-	1,832
2002 - 2003	1,808		135	1	1,672
2001 - 2002	1,466		135	-	1,331
2000 - 2001	1,357		207	1,150	-
	<u>\$ 36,624</u>	<u>\$ 462,195</u>	<u>\$ 438,574</u>	<u>\$ 1,195</u>	<u>\$ 59,050</u>

Reconcilement with revenues:

Total Taxes Collected	\$ 439,766
Interest Collected	<u>(1,192)</u>
Ad-Valorem Taxes Collected	<u>\$ 438,574</u>

TOWN OF WARRENTON, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2011

Warrenton Township	Town - Wide		Total Levy		
	Property Valuation	Rate per \$100	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at Current Year Rate	\$ 66,172,168	0.61	\$ 403,650	\$ 399,281	\$ 4,369
Less old age exemption	(747,078)	0.61	(4,557)	(4,557)	-
Registered motor vehicles taxed at prior year's rate	3,368,680	0.61	20,549	-	20,549
Total Levy	68,793,770		419,642	394,724	24,918
Discoveries	7,386,721	0.61	45,059	45,059	-
Abatements	(410,820)	0.61	(2,506)	(2,506)	-
Total Property Valuation	<u>\$ 75,769,671</u>		462,195	437,277	24,918
Less: Uncollected Tax at June 30, 2011			(36,333)	(32,166)	(4,167)
Current Year Taxes Collected			<u>\$ 425,862</u>	<u>\$ 405,111</u>	<u>\$ 20,751</u>
Current Levy Collection %			<u>92.14%</u>	<u>92.64%</u>	<u>83.28%</u>

COMPLIANCE SECTION

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

Certified Public Accountants



America Counts on CPAs

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

Jennifer T. Reese, CPA
Curtis G. Van Horne, CPA
Cathy E. McKinley, CPA
Thomas F. Edmunds IV, CPA
Leah P. Englebright, CPA
James C. Lamb, CPA
Tara H. Roberson, CPA

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

Honorable Mayor and Board of Commissioners
Town of Warrenton

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Warrenton, North Carolina, as of and for the year ended June 30, 2011, which collectively comprises the Town of Warrenton's basic financial statements, and have issued our report thereon dated October 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

102 W. Spring Street • P.O. Box 1366 • Oxford, NC 27565 • (919) 693-5196 • fax (919) 693-7614

www.wwcecpa.com



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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 11-1, 11-2 and 11-3 as material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Warrenton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 11-1, 11-2, and 11-3.

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

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

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

October 26, 2011

**TOWN OF WARRENTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

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

Noncompliance material to financial statements noted Yes x No

B. Financial Statement Findings

11-1 Segregation of Duties

MATERIAL WEAKNESS

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

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

Effect: Transactions could be mishandled.

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

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

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

11-2 Preparation of Financial Statements

MATERIAL WEAKNESS

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

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

**TOWN OF WARRENTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Effect: Financial statements could be presented with material misstatements.

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

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

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

11-3 Excess of Expenditures over Appropriations

MATERIAL WEAKNESS

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

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

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

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

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

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

**TOWN OF WARRENTON
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2011**

Section II - Financial Statement Findings

MATERIAL WEAKNESS

11-1 Segregation of Duties

Name of Contact Person: John Freeman, Town Administrator

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

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

MATERIAL WEAKNESS

11-2 Preparation of financial Statements

Name of Contact Person: John Freeman, Town Administrator

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

Proposed Completion Date: The management personnel will obtain additional training during fiscal year 11-12.

MATERIAL WEAKNESS

11-3 Excess of Expenditures over Appropriations

Name of Contact Person: John Freeman, Town Administrator

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

Proposed Completion Date: Management will impelment this procedure immediately.

**TOWN OF WARRENTON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

There were no prior year audit findings.