

**TOWN OF WARRENTON, NORTH CAROLINA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2013**

Town Council Members

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

Kim Harding  
Julius Banzet, III

Mary Hunter  
Margaret Britt

John Mooring  
Al Fleming

Administrative and Financial Staff

Robert Davie, Town Administrator  
Bettie Davis, Finance Clerk

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**JUNE 30, 2013**

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

Certified Public Accountants



America Counts on CPAs

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

Jennifer T. Reese, CPA  
Curtis G. Van Horne, CPA  
Cathy E. McKinley, CPA  
Tara H. Roberson, CPA  
K. Jamison Crampton, CPA

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## Independent Auditor's Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Warrenton, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

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made by management, as well as evaluation the overall financial statement presentation of the financial statements.

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

### ***Opinions***

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Warrenton, North Carolina as of June 30, 2013, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 6-15, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic 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 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of Town of Warrenton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Warrenton's internal control over financial reporting and compliance.

***Winston, Williams, Creech, Evans & Co., LLP***  
Oxford, North Carolina  
October 31, 2013

## **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, 2013. 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**

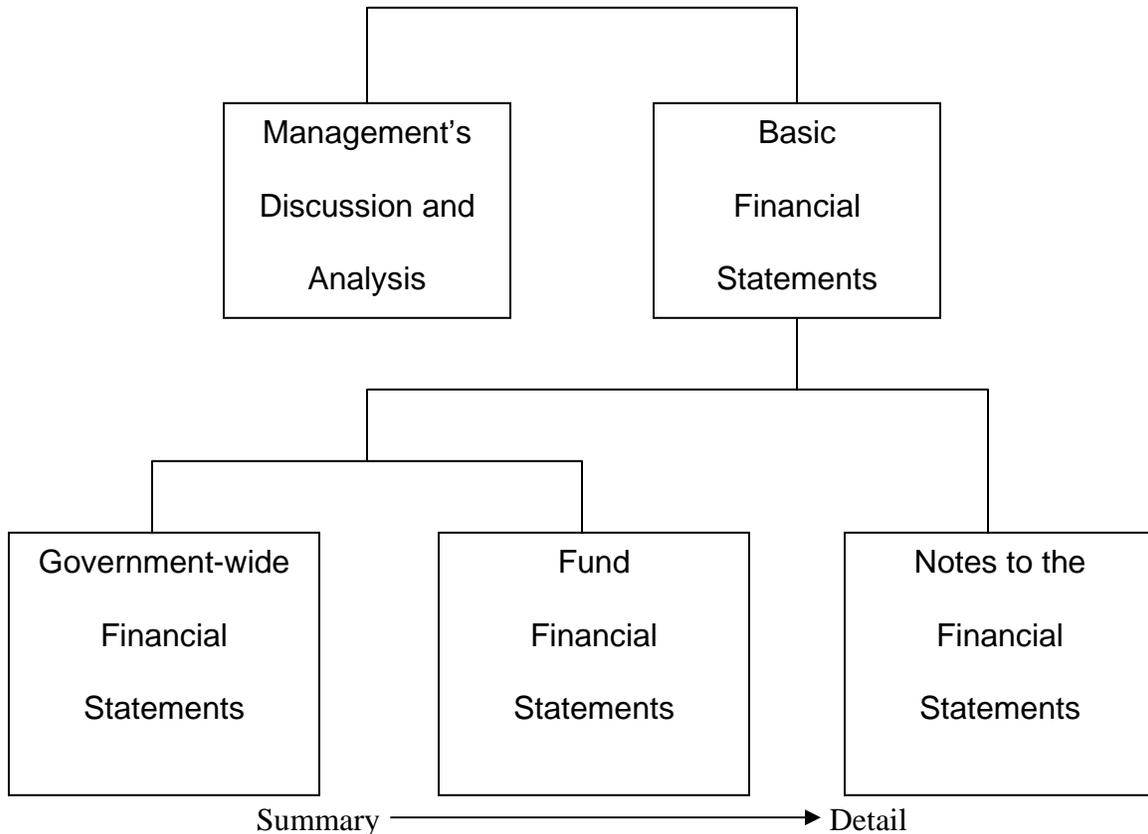
- The assets of the Town of Warrenton exceeded its liabilities at the close of the fiscal year by \$ 4,687,512 (net position).
- The government's total net position increased by \$22,016, primarily due to increases in the government-type activities net position.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$614,502 an increase of \$95,950 in comparison with the prior year. Approximately 38.95 percent of this total amount, or 239,306, 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 \$239,306, or 26.06 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 position and how they have changed. Net position is the difference between the Town's total assets and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

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

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

## **Fund Financial Statements**

The fund financial statements (see Figure 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 Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Warrenton adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town of Warrenton, the management of the Town of Warrenton, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The 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 Position and the Statement of Activities.

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

## Government-Wide Financial Analysis

### The Town of Warrenton's Net Position

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 699,021	\$ 595,354	\$ 548,808	\$ 405,430	\$ 1,247,829	\$ 1,000,784
Capital assets	74,982	114,607	3,857,079	3,964,327	3,932,061	4,078,934
Total assets	774,003	709,961	4,405,887	4,369,757	5,179,890	5,079,718
Long-term liabilities outstanding	60,488	74,516	166,663	142,985	227,151	217,501
Other liabilities	64,634	86,193	200,593	110,528	265,227	196,721
Total liabilities	125,122	160,709	367,256	253,513	492,378	414,222
Net Position:						
Net investment in capital assets	464	(10,453)	3,769,051	3,856,617	3,769,515	3,846,164
Restricted	375,196	327,514	-	-	375,196	327,514
Unrestricted	273,221	232,191	269,580	259,627	542,801	491,818
Total net position	\$ 648,881	\$ 549,252	\$ 4,038,631	\$ 4,116,244	\$ 4,687,512	\$ 4,665,496

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Warrenton exceeded liabilities and deferred inflows by \$4,687,512 as of June 30, 2013. The Town of Warrenton's net position increased by \$22,016 for the fiscal year ended June 30, 2013. A portion reflects the Town's net 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 net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Warrenton's net position, (8.01%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$542,801 is unrestricted.

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

- Receipt of police CHRP grant

## Town of Warrenton Changes in Net Position

**Figure 3**

	Governmental Activities		Business-type Activities		Total	Total
	2013	2012	2013	2012	2013	2012
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 169,189	\$ 166,622	\$ 1,329,471	\$ 1,284,789	\$ 1,498,660	\$ 1,451,411
Operating grants and contributions	77,542	73,848	-	-	77,542	73,848
Capital grants and contributions	-	-	25,650	68,260	25,650	68,260
General revenues:						
Property taxes	442,652	435,852	-	-	442,652	435,852
Other taxes	274,598	241,678	-	-	274,598	241,678
Grants and contributions not restricted to specific programs			-			
Other	14,849	20,600	39,985	26,456	54,834	47,056
Total revenues	<u>978,830</u>	<u>938,600</u>	<u>1,395,106</u>	<u>1,379,505</u>	<u>2,373,936</u>	<u>2,318,105</u>
<b>Expenses:</b>						
General government	153,266	150,733	-	-	153,266	150,733
Public safety	492,127	525,546	-	-	492,127	525,546
Highways/streets	171,429	159,122	-	-	171,429	159,122
Economic development	-	-	-	-	-	-
Environmental protection	91,150	90,864	-	-	91,150	90,864
Interest on long-term debt	3,119	6,299	-	-	3,119	6,299
Water and sewer	-	-	1,440,829	1,370,564	1,440,829	1,370,564
Total expenses	<u>911,091</u>	<u>932,564</u>	<u>1,440,829</u>	<u>1,370,564</u>	<u>2,351,920</u>	<u>2,303,128</u>
Increase in net position before transfers	67,739	6,036	(45,723)	8,941	22,016	14,977
Transfers	31,890	33,147	(31,890)	(33,147)	-	-
Increase in net position	99,629	39,183	(77,613)	(24,206)	22,016	14,977
Net position, July 1 (consolidated)	<u>549,252</u>	<u>510,069</u>	<u>4,116,244</u>	<u>4,140,450</u>	<u>4,665,496</u>	<u>4,650,519</u>
Net position, June 30	<u>\$ 648,881</u>	<u>\$ 549,252</u>	<u>\$ 4,038,631</u>	<u>\$ 4,116,244</u>	<u>\$ 4,687,512</u>	<u>\$ 4,665,496</u>

**Governmental activities.** Governmental activities increased the Town's net position by \$99,629, thereby accounting for 100.00% of the total growth in the net position of the Town of Warrenton. Key elements of this increase are as follows:

- Receipt of a Police CHRP grant in the amount of \$ 50,297
- Decrease in public safety expenditures in the amount of \$ 33,419

**Business-type activities:** Business-type activities decreased the Town of Warrenton's net position by \$77,613. Key elements of this increase are as follows:

- Increase in operating expenses for the water and sewer fund of \$64,434
- Increase in operating expenses for the wastewater treatment fund of \$5,831

### **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 \$ 312,573, while total fund balance reached \$ 614,502. 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 26.06% of general fund expenditures, while total fund balance represents 66.91% of the same amount.

**General Fund Budgetary Highlights:** During the fiscal year, the Town did not revise the budget. 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 \$95,950, 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 position of the Wastewater Treatment Fund at the end of the fiscal year amounted to (\$130,933), and those for the Water and Sewer Fund amounted to \$4,169,564. The total change in net position for both funds was \$9,688 and (\$87,301) 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, 2013, totals \$3,932,061 (net of accumulated depreciation). These assets include buildings, improvements, land, machinery and equipment, and vehicles.

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

- Reroofing the public works building in the amount of \$14,858.
- Purchase of a Xerox copier in the amount of \$5,663.
- Construction in progress of \$140,047 for the sewer system rehabilitation.

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

**(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,000	\$ 1,000	\$ 5,250	\$ 5,250	\$ 6,250	\$ 6,250
Buildings and systems	5,360	5,769	133,968	137,974	139,328	143,743
Improvements	-	-	170,781	162,606	170,781	162,606
Water and Sewer Lines	-	-	3,222,614	3,433,557	3,222,614	3,433,557
Machinery and equipment	17,368	20,471	98,362	118,316	115,730	138,787
Vehicles and motorized equipment	51,254	87,367	34,757	55,324	86,011	142,691
Construction in progress			191,347	51,300	191,347	51,300
<b>Total</b>	<b>\$ 74,982</b>	<b>\$ 114,607</b>	<b>\$ 3,857,079</b>	<b>\$ 3,964,327</b>	<b>\$ 3,932,061</b>	<b>\$ 4,078,934</b>

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 11.9% at June 30, 2013, which is much higher than the state average of 8.8%.

## **Budget Highlights for the Fiscal Year Ending June 30, 2014**

### **Governmental Activities:**

In the 2013-2014 budget the Town Board of Commissioners did not budget for any appropriation of fund balance. The Town anticipates the tax rate to remain the same. The Town anticipates continuing to receive a federal COPS grant that will fund an officer position for one additional year.

### **Business – type Activities:**

In the 2013-2014 budget the Town Board of Commissioners did not budget for any appropriation of fund balance. The Town anticipates rates to remain the same.

### **Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**TOWN OF WARRENTON, NORTH CAROLINA**  
**STATEMENT OF NET POSITION**  
June 30, 2013

	Primary Government		Totals
	Governmental Activities	Business-type Activities	June 30, 2012
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 265,646	\$ 542,152	\$ 807,798
Restricted Cash	73,267	-	73,267
Receivables (net):			
Taxes	46,338	-	46,338
Accrued interest receivable on taxes	11,841	-	11,841
Accounts Receivable	102,300	147,124	249,424
Payroll Taxes Receivable	3,133	5,412	8,545
Note receivable	-	855	855
Inventory	-	44,603	44,603
Internal Balances	196,496	(196,496)	-
<b>Total current assets</b>	<b>699,021</b>	<b>543,650</b>	<b>1,242,671</b>
<b>Noncurrent Assets</b>			
Note Receivable	-	5,158	5,158
Capital Assets (Note 1)			
Land, non-depreciable improvements and construction in progress	1,000	196,597	197,597
Other capital assets, net of depreciation	73,982	3,660,482	3,734,464
<b>Total Noncurrent Assets</b>	<b>74,982</b>	<b>3,862,237</b>	<b>3,937,219</b>
<b>Total Assets</b>	<b>774,003</b>	<b>4,405,887</b>	<b>5,179,890</b>
<b>Liabilities:</b>			
<b>Current Liabilities</b>			
Accounts payable	26,340	160,454	186,794
Accrued payroll	-	11,605	11,605
Accrued interest payable	1,242	-	1,242
Current portion of vacation pay	14,516	9,019	23,535
Current portion of long-term debt	14,030	19,515	33,545
<b>Long-term Liabilities</b>			
Accrued vacation pay	8,506	11,364	19,870
Customer deposits	-	86,786	86,786
Non-current portion of long- term debt	60,488	68,513	129,001
<b>Total Liabilities</b>	<b>125,122</b>	<b>367,256</b>	<b>492,378</b>
<b>Net Position:</b>			
Net Investment in capital assets, Restricted for	464	3,769,051	3,769,515
Stabilization by State Statute	301,929	-	301,929
Streets	73,267	-	73,267
Unrestricted	273,221	269,580	542,801
<b>Total Net Position</b>	<b>\$ 648,881</b>	<b>\$ 4,038,631</b>	<b>\$ 4,687,512</b>

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, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 153,266	\$ 15,840	\$ -	\$ -	\$ (137,426)	\$ -	\$ (137,426)
Public Safety	492,127	1,120	50,297	-	(440,710)	-	(440,710)
Transportation	171,429	-	27,245	-	(144,184)	-	(144,184)
Economic Development	-	152,229	-	-	152,229	-	152,229
Environmental protection	91,150	-	-	-	(91,150)	-	(91,150)
Interest on long-term debt	3,119	-	-	-	(3,119)	-	(3,119)
Total governmental activities	911,091	169,189	77,542	-	(664,360)	-	(664,360)
Business-type activities:							
Wastewater Treatment	472,720	278,875	-	-	-	(193,845)	(193,845)
Water and sewer	968,109	1,050,596	-	25,650	-	108,137	108,137
	1,440,829	1,329,471	-	25,650	-	(85,708)	(85,708)
Total primary government	2,351,920	1,498,660	77,542	25,650	(664,360)	(85,708)	(750,068)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					442,652	-	442,652
Other taxes					274,598	-	274,598
Unrestricted investment earnings					122	2,409	2,531
Miscellaneous					14,727	37,576	52,303
Transfers					31,890	(31,890)	-
Total general revenues, special items, transfers					763,989	8,095	772,084
Change in net position					99,629	(77,613)	22,016
Net position - beginning					549,252	4,116,244	4,665,496
Net position - ending					\$ 648,881	\$ 4,038,631	\$ 4,687,512

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, 2013

**EXHIBIT 3**

	<u>GENERAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 265,646	\$ 265,646
Restricted Cash	73,267	73,267
Receivables (net):		
Taxes	46,338	46,338
Property taxes receivable from the County	10,903	10,903
Franchise Tax Receivable	19,076	19,076
ABC Receivable	20,446	20,446
Sales Tax Receivable	25,958	25,958
Sales Tax Refund Due	10,463	10,463
Grant receivable	15,454	15,454
Payroll taxes	3,133	3,133
Due from other funds	196,496	196,496
	<u>687,180</u>	<u>687,180</u>
<b>Total Assets</b>	<u>687,180</u>	<u>687,180</u>
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	10,699	10,699
Accrued payroll	15,641	15,641
<b>Total Liabilities</b>	<u>26,340</u>	<u>26,340</u>
<b>Deferred Inflows of Resources</b>		
Property taxes receivable	46,338	46,338
<b>Total deferred inflows of resources</b>	<u>46,338</u>	<u>46,338</u>
<b>Fund Balances:</b>		
<b>Restricted</b>		
Stabilization by State Statute	301,929	301,929
Streets	73,267	73,267
Unassigned	239,306	239,306
	<u>614,502</u>	<u>614,502</u>
<b>Total Fund Balances</b>	<u>614,502</u>	<u>614,502</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 687,180</u>	<u>\$ 687,180</u>

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

**TOWN OF WARRENTON, NORTH CAROLINA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2013

**EXHIBIT 3**

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

Total equity and other credits (Exhibit 4)	\$ 614,502
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	74,982
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred.	11,841
Liabilities for earned revenues considered deferred inflows of resources in fund statemen	46,338
Long-term liabilities used in governmental activities ar not financial uses and therefore are not reported in the fund statements	
Gross long-term debt	(97,540)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the fund statements	<u>(1,242)</u>
Net position of governmental activities (Exhibit 1)	<u>\$ 648,881</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, 2013**

	<u>GENERAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS JUNE 30, 2013</u>
<b>REVENUES :</b>		
Ad valorem taxes	\$ 446,358	\$ 446,358
Other taxes and licenses	191,643	191,643
Restricted intergovernmental	77,542	77,542
Unrestricted intergovernmental	82,955	82,955
Permits and fees	1,630	1,630
Sales, services and fees	182,286	182,286
Investment earnings	122	122
Total Revenues	<u>982,536</u>	<u>982,536</u>
<b>EXPENDITURES</b>		
Current:		
General government	149,633	149,633
Public safety	463,659	463,659
Transportation	157,273	157,273
Environmental protection	92,441	92,441
Debt service		
Principal	50,542	50,542
Interest	4,928	4,928
Total Expenditures	<u>918,476</u>	<u>918,476</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers	31,890	31,890
Total other financing sources (uses)	<u>31,890</u>	<u>31,890</u>
<b>NET CHANGE IN FUND BALANCE</b>	95,950	95,950
<b>FUND BALANCE, BEGINNING</b>	<u>518,552</u>	<u>518,552</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 614,502</u>	<u>\$ 614,502</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, 2013

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

Net changes in fund balances - total governmental funds (Exhibit 4)	\$	95,950
<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		3,775
Depreciation Expense		(43,400)
		(39,625)
<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 unavailable revenue for tax revenues		(3,706)
<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 position. 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>		
Repayment of Principal of Long-Term Debt		50,542
		50,542
<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>		
		(3,532)
Total changes in net position of governmental activities	\$	99,629

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

## EXHIBIT 5

**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, 2013

	General Fund			Variance Favorable (Unfavorable)
	Original	Final	Actual	
<b>REVENUES :</b>				
Ad valorem taxes	\$ 451,542	\$ 451,542	\$ 446,358	\$ (5,184)
Other taxes and licenses	159,486	159,486	191,643	32,157
Restricted intergovernmental	74,085	74,085	77,542	3,457
Unrestricted intergovernmental	101,438	101,438	82,955	(18,483)
Permits & fees	4,769	4,769	1,630	(3,139)
Sales, services and fees	173,191	173,191	182,286	9,095
Investment earnings	400	400	122	(278)
Total Revenues	<u>964,911</u>	<u>964,911</u>	<u>982,536</u>	<u>17,625</u>
<b>EXPENDITURES</b>				
General government	152,603	152,603	149,633	2,970
Public safety	518,246	518,246	463,659	54,587
Transportation	177,236	177,236	157,273	19,963
Environmental protection	93,881	93,881	92,441	1,440
Debt service				
Principal	50,542	50,542	50,542	-
Interest	4,403	4,403	4,928	(525)
Total Expenditures	<u>996,911</u>	<u>996,911</u>	<u>918,476</u>	<u>78,435</u>
REVENUES OVER (UNDER) EXPENDITURES	(32,000)	(32,000)	64,060	96,060
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers	32,000	32,000	31,890	(110)
Total other financing sources (uses)	<u>32,000</u>	<u>32,000</u>	<u>31,890</u>	<u>(110)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	95,950	<u>\$ 95,950</u>
FUND BALANCE, BEGINNING			518,552	
FUND BALANCE, ENDING			<u>\$ 614,502</u>	

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

EXHIBIT 6

TOWN OF WARRENTON, NORTH CAROLINA  
 STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013

	ENTERPRISE FUNDS		TOTAL
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	JUNE 30, 2013
<b>ASSETS:</b>			
<b>CURRENT ASSETS</b>			
Cash and Investments	\$ 11,429	\$ 530,723	\$ 542,152
Accounts receivable (net)	42,344	104,780	147,124
Payroll taxes receivable	2,705	2,707	5,412
Note receivable	-	855	855
Inventory	-	44,603	44,603
Total current assets	<u>56,478</u>	<u>683,668</u>	<u>740,146</u>
<b>NONCURRENT ASSETS</b>			
Note receivable	-	5,158	5,158
Land and construction in progress	-	196,597	196,597
Other capital assets net of depreciation	30,988	3,629,494	3,660,482
Total noncurrent assets	<u>30,988</u>	<u>3,831,249</u>	<u>3,862,237</u>
Total assets	<u>87,466</u>	<u>4,514,917</u>	<u>4,602,383</u>
<b>LIABILITIES:</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	5,545	154,909	160,454
Accrued payroll	5,321	6,284	11,605
Due to other funds	196,496	-	196,496
Current portion of accrued vacation pay	5,035	3,984	9,019
Current portion of long-term debt	-	19,515	19,515
Total current liabilities	<u>212,397</u>	<u>184,692</u>	<u>397,089</u>
<b>NONCURRENT LIABILITIES</b>			
Accrued vacation pay	6,002	5,362	11,364
Customer deposits	-	86,786	86,786
Long-term Portion of debt	-	68,513	68,513
Total noncurrent liabilities	<u>6,002</u>	<u>160,661</u>	<u>166,663</u>
Total liabilities	<u>218,399</u>	<u>345,353</u>	<u>563,752</u>
<b>NET POSITION:</b>			
Net Investment in capital assets	30,988	3,738,063	3,769,051
Unrestricted	(161,921)	431,501	269,580
Total net position	<u>\$ (130,933)</u>	<u>\$ 4,169,564</u>	<u>\$ 4,038,631</u>

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 POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	ENTERPRISE FUNDS		TOTALS
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	JUNE 30, 2013
<b>OPERATING REVENUES</b>			
Charges for services	\$ 278,875	\$ 1,050,596	\$ 1,329,471
Total operating revenues	278,875	1,050,596	1,329,471
<b>OPERATING EXPENSES</b>			
Administration	254,632	256,876	511,508
Water and sewer operations	-	451,463	451,463
Water collection and treatment	213,818	-	213,818
Depreciation	4,270	259,770	264,040
Total	472,720	968,109	1,440,829
OPERATING INCOME (LOSS)	(193,845)	82,487	(111,358)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Miscellaneous	40,746	765	41,511
Interest earned	-	2,409	2,409
Interest paid	-	(3,935)	(3,935)
Total Nonoperating Revenues (Expenses)	40,746	(761)	39,985
NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(153,099)	81,726	(71,373)
Capital Contribution	-	25,650	25,650
Transfers from other funds	194,677	73,314	267,991
Transfers to other funds	(31,890)	(267,991)	(299,881)
Change in net position	9,688	(87,301)	(77,613)
NET POSITION, BEGINNING	(140,621)	4,256,865	4,116,244
TOTAL NET POSITION, ENDING	\$ (130,933)	\$ 4,169,564	\$ 4,038,631

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

## EXHIBIT 8

**TOWN OF WARRENTON, NORTH CAROLINA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	TOTALS JUNE 30, 2012
Cash Flows from Operating Activities:			
Cash received from customers	\$ 291,621	\$ 1,056,190	\$ 1,347,811
Cash paid for goods and services	(300,694)	(402,865)	(703,559)
Cash paid to employees	(168,173)	(175,472)	(343,645)
Customer deposits returned	-	8,730	8,730
Net Cash Provided (Used) By Operating Activities	(177,246)	486,583	309,337
Cash Flows from Noncapital Financing Activities:			
Transfers from other funds	194,677	73,314	267,991
Transfers to other funds	(31,890)	(267,991)	(299,881)
Total Cash Flows From Noncapital Financing Activities	162,787	(194,677)	(31,890)
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of fixed assets	(14,858)	(141,934)	(156,792)
State grants	-	25,650	25,650
Principal paid on debt	-	(45,332)	(45,332)
Interest paid on debt	-	(3,935)	(3,935)
Installment obligations Issued	-	25,650	25,650
Loans made to businesses	-	(6,500)	(6,500)
Principal received on loans	-	487	487
Miscellaneous	40,746	765	41,511
Net Cash Provided (Used) for Capital and Related Financing Activities	25,888	(145,149)	(119,261)
Cash Flows from Investing Activities:			
Interest on investments	-	2,409	2,409
Net Cash Flows from Investing Activities	-	2,409	2,409
Net Increase (Decrease) in Cash and Cash Equivalents	11,429	149,166	160,595
Cash and Cash Equivalents - Beginning of the Year	-	381,557	381,557
Cash and Cash Equivalents - End of the Year	\$ 11,429	\$ 530,723	\$ 542,152

The accompanying notes are an integral part of the financial statements

EXHIBIT 8

TOWN OF WARRENTON, NORTH CAROLINA  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	BUSINESS-TYPE ACTIVITIES		
	ENTERPRISE FUNDS		TOTALS
	WASTEWATER TREATMENT FUND	WATER & SEWER FUND	JUNE 30, 2012
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:			
Operating Income	\$ (193,845)	\$ 82,487	\$ (111,358)
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities			
Depreciation	4,270	259,770	264,040
Change in assets and liabilities:			
Accounts receivable	12,746	5,594	18,340
Payroll taxes receivable	(2,705)	(2,707)	(5,412)
Inventory	-	10,302	10,302
Accounts payable & other liabilities	6,427	115,752	122,179
Customer deposits	-	8,730	8,730
Accrued vacation	(4,139)	6,655	2,516
Net Cash Provided By Operating Activities	\$ (177,246)	\$ 486,583	\$ 309,337

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, 2013**

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**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 position 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, 2013**

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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 in connection with a proprietary fund's principal ongoing operations. The principal operating

**TOWN OF WARRENTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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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 2012 through February 2013 apply to the fiscal year ended June 30, 2013. 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

**TOWN OF WARRENTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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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, Deferred Inflows of Resources, 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**  
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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, 2013.

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

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2012. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. 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.

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7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, buildings, improvements, equipment, vehicles, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$ 50,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

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

8. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has one item that meets the criterion for this category – property taxes receivable.

9. Long-Term Obligations

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

In fund financial statements, 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

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10. 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.

11. Net Position / Fund Balances

**Net Assets**

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

**Fund Balances**

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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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.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

For the fiscal year ended June 30, 2013, the Wastewater Treatment Fund had a deficit in Net Position of \$130,621. This will be addressed in fiscal year 2013-2014.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2013, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for debt service by \$525. This over-expenditure occurred because two loans were paid off in the current year. The principle was budgeted according to the remaining loan balance but the final interest amount was underbudgeted. 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

**TOWN OF WARRENTON, NORTH CAROLINA**  
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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, 2013, the Town's deposits had a carrying amount of \$ 825,989 and a bank balance of \$841,530. Of this bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2013, the Town's petty cash fund totaled \$60.

2. Investments

As of June 30, 2013, the Town of Warrenton had \$55,016 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 Position are as follows:

<u>FUND</u>	<u>6/30/2013</u>	
General Fund:		
Taxes Receivable	\$ 46,338	
Accrued Interest Receivable	11,841	
Payroll Taxes Receivable	3,133	
ABC Receivable	20,446	
Receivable from the County	10,903	
Accounts Receivable	25,958	
Franchise Tax Receivable	19,076	
Grant Receivable	15,454	
Sales Tax Receivable	<u>10,463</u>	
Total General Fund		\$ 163,612
Enterprise Fund:		
Accounts receivable	147,124	
Payroll Taxes Receivable	<u>5,412</u>	
Total Enterprise Fund		<u>152,536</u>
Total All Funds		<u>\$ 316,148</u>

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2013 was as follows:

**TOWN OF WARRENTON, NORTH CAROLINA**  
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	<u>Beginning Balances</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental activities</b>					
<b>Capital assets not being depreciated:</b>					
Land	\$ 1,000				\$ 1,000
<b>Capital Assets being depreciated:</b>					
Buildings	24,111				24,111
Equipment	147,261	3,775			151,036
Vehicles	<u>422,236</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>422,236</u>
Total capital assets being depreciated	593,608	3,775			597,383
<b>Less accumulated depreciation for:</b>					
Buildings	18,342	409			18,751
Equipment	126,790	6,878			133,668
Vehicles	<u>334,869</u>	<u>36,113</u>	<u>-</u>	<u>-</u>	<u>370,982</u>
Total accumulated depreciation	480,001	43,400			523,401
Total capital assets being depreciated, net	<u>113,607</u>				<u>73,982</u>
<b>Government activity capital assets, net</b>	<u>\$114,607</u>				<u>\$ 74,982</u>

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

General government	\$ 566
Public Safety	30,214
Transportation	<u>12,620</u>
Total depreciation expense	\$ 43,400

**TOWN OF WARRENTON, NORTH CAROLINA**  
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<u><b>Business-type activities</b></u>	<u>Beginning Balances</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Enterprise Fund:</b>					
<b>Capital assets not being depreciated:</b>					
Land	\$ 5,250				\$ 5,250
Construction in progress	<u>51,300</u>	<u>140,047</u>		-	<u>191,347</u>
Total assets not being depreciated	56,550	140,047			196,597
<b>Capital Assets being depreciated:</b>					
Building renovations	160,232				160,232
Improvements	167,054	14,858			181,912
Furniture & Equipment	315,941	1,887			317,828
Vehicles	197,450				197,450
Water & Sewer lines	<u>5,263,471</u>	-	-	-	<u>5,263,471</u>
Total capital assets being depreciated	6,104,148	16,745			6,120,893
<b>Less accumulated depreciation for:</b>					
Building renovations	22,258	4,006			26,264
Improvements	4,448	6,683			11,131
Furniture & Equipment	197,625	21,841			219,466
Vehicles	142,126	20,567			162,693
Water & Sewer Lines	<u>1,829,914</u>	<u>210,943</u>	-	-	<u>2,040,857</u>
Total accumulated depreciation	2,196,371	264,040			2,460,411
Total capital assets being depreciated, net	3,907,777				<u>3,660,482</u>
<b>Enterprise Fund capital assets, net</b>	<u>\$ 3,964,327</u>				<u>\$ 3,857,079</u>

**TOWN OF WARRENTON, NORTH CAROLINA**  
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Construction commitments

The government has active construction projects as of June 30, 2013. At year-end, the government's commitments with contractors are as follows:

B.	Project	Spent-to-date	Remaining Commitment
	Sewer System Reahabilitation	191,347	308,653

Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute an actuarially determined rate. For the Town, the current rate for employees engaged in law enforcement is 11.46% and 6% respectively, of annual covered payroll. The contribution requirements of members and of the Town of Warrenton is established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012 and 2011 were \$17,022, \$15,655, and \$15,719, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description.*

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

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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, 2012, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>5</u>
Total	6

A separate report was not issued for the plan.

*2. Summary of Significant Accounting Policies:*

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

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

*3. Contributions.*

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

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

**TOWN OF WARRENTON, NORTH CAROLINA**  
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*Funding Policy.* Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Contributions for the year ended June 30, 2013 were \$ 7,620.

d. Simple IRA

Effective July 1, 2008, the Town set up a Simple IRA for employees not in law enforcement. For those employees who participate in the Simple IRA plan, the Town provides a 3% match. Retirement expense for the Town for the Years ended June 30, 2013, 2012 and 2011, was \$10,159, \$11,197, and \$11,180, respectively.

2. Deferred Inflows of Resources

Deferred inflows of resources at year-end is comprised of the following:

	Deferred Revenue
Taxes receivable (General Fund), less penalties	\$ 46,338

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

**TOWN OF WARRENTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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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.

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

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

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. This lease was paid off in the current fiscal year.

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. This lease was paid off in the current fiscal year.

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. This lease was paid off in the current fiscal year.

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

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

NCDENR is funding a project for sewer system rehabilitation. The construction phase of

**TOWN OF WARRENTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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this project is underway but is not completed. Therefore the repayment terms have not been established.

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

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Vehicles	\$ 256,148	\$ 194,533	\$ 61,615
Equipment	\$ 101,785	\$ 62,932	\$ 38,853

The future minimum lease obligations and the net present value of these lease payments as of June 30, 2013 were as follows:

<u>YEAR ENDING JUNE 30</u>	<u>GENERAL LONG- TERM DEBT</u>	<u>WATER AND SEWER FUND</u>
2014	16,915	19,515
2015	16,914	8,732
2016	16,914	8,707
2017	5,870	8,682
2018	5,970	8,656
2019-2023	23,376	34,684
2024-2028	-	7,436
2029-2033	-	6,797
Total minimum lease payments	85,959	96,412
Less: amount representing interest	( 11,441)	( 14,798)
Present value of minimum lease payments	<u>\$ 74,518</u>	<u>\$ 88,028</u>

**TOWN OF WARRENTON, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
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b. Changes in Long-Term Liabilities

	General Long-term Debt Balance <u>7-1-12</u>	<u>Additions</u>	<u>Retirements</u>	General Long-term Debt Balance <u>6-30-13</u>	Current Portion of Balance <u>Balance</u>
<i>Governmental activities:</i>					
Capital Lease	\$ 125,060		\$ 50,542	\$ 74,518	\$ 14,030
Compensated absences	<u>17,681</u>	<u>19,857</u>	<u>14,516</u>	<u>23,022</u>	<u>14,516</u>
Governmental activity long-term liabilities	<u>\$ 142,741</u>	<u>\$ 19,857</u>	<u>\$ 65,058</u>	<u>\$ 97,540</u>	<u>\$ 28,546</u>
<i>Business-type activities:</i>					
Capital Lease	\$ 107,710	25,650	\$ 45,332	\$ 88,028	\$ 16,716
Compensated absences	<u>17,867</u>	<u>11,535</u>	<u>9,019</u>	<u>20,383</u>	<u>9,019</u>
Total business-type activities	<u>\$ 125,577</u>	<u>\$ 37,185</u>	<u>\$ 54,351</u>	<u>\$ 108,411</u>	<u>\$ 25,735</u>

C. Internal Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2013, consist of the following:

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

Transfers to/from Other Funds:

Transfers to/from other funds at June 30, 2013, consist of the following:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Reason</u>
Wastewater Fund	General Fund	\$ 31,890	Operating transfer
Water Sewer	Wastewater Fund	\$ 194,677	Operating transfer
Water Sewer	Water Capital Projects	\$73,314	Operating transfer

**IV. 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 \$ 414 to the Council during the fiscal year ended June 30, 2013.

**TOWN OF WARRENTON, NORTH CAROLINA**  
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**V. RENT**

The town rents its office facilities under a month by month lease agreement. Total rent expense for the 2013 year was \$ 8,000.

**VI. 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.

**VII. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS**

The Town has evaluated events and transactions that occurred between June 30, 2013 and October 31, 2013, which is the date that the financials were available to be issued, for possible recognition or disclosure in the financial statements.

**VIII. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT**

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

**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, 2013

(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013		VARIANCE POSITIVE (NEGATIVE)	2012
	BUDGET	ACTUAL		ACTUAL
<b>REVENUES</b>				
Ad valorem taxes				
Taxes	\$ 448,272	\$ 442,769	\$ -	\$ 441,480
Penalties and interest	3,270	3,589		3,274
Total	451,542	446,358	(5,184)	444,754
Other taxes and licenses:				
Local option sales taxes	147,846	146,912		146,550
ABC revenue	9,600	36,041		6,421
Privilege licenses	2,040	8,690		1,955
Total	159,486	191,643	32,157	154,926
Unrestricted intergovernmental revenues				
Utility franchise tax	67,600	76,137		75,885
Beer and wine tax	4,000	3,448		3,743
Sales tax refund	27,800	915		5,028
Motor fuels tax refunds	2,038	2,455		2,096
Total	101,438	82,955	(18,483)	86,752
Restricted intergovernmental revenues				
"State Street Aid" grant	27,085	27,245		27,085
Police CHRP grant	47,000	50,297		46,763
Total	74,085	77,542	3,457	73,848
Permits and fees				
Cable T.V. Franchise	1,339	-		501
Auto tags	-	10		40
Code enforcement	2,600	710		2,025
Parking enforcement	500	410		485
Zoning fees	330	500		440
Total	\$ 4,769	\$ 1,630	\$ (3,139)	\$ 3,491

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, 2013

(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013		VARIANCE POSITIVE (NEGATIVE)	2012
	BUDGET	ACTUAL		ACTUAL
Sales and Services				
Landfill Fees	\$ 148,401	\$ 152,229		\$ 148,272
Cell tower rent	15,840	15,840		15,840
Miscellaneous	8,950	14,217		17,483
Total	173,191	182,286	9,095	181,595
Investment earnings				
General Fund	400	122		123
Total	400	122	(278)	123
 Total revenues	 \$ 964,911	 \$ 982,536	 \$ 17,625	 \$ 945,489

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, 2013

(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013		VARIANCE POSITIVE (NEGATIVE)	2012
	BUDGET	ACTUAL		ACTUAL
<b>EXPENDITURES</b>				
General Government				
Governing Body				
Salaries	\$ 1,500	\$ 1,625	\$ -	\$ 1,625
Operating Expenses	1,507	1,040		1,493
Total	<u>3,007</u>	<u>2,665</u>	<u>342</u>	<u>3,118</u>
Administration				
Salaries and employee benefits	137,450	130,737		134,051
Other operating expenditures	87,908	80,681		69,748
Capital outlay	-	1,887		-
Administrative fee paid by Water and S	(75,762)	(66,337)		(51,109)
Total	<u>149,596</u>	<u>146,968</u>	<u>2,628</u>	<u>152,690</u>
Total general government	<u>152,603</u>	<u>149,633</u>	<u>2,970</u>	<u>155,808</u>
Public Safety				
Police				
Salaries and employee benefits	338,723	297,433		283,285
Capital outlay	-	1,888		-
Other operating expenditures	97,150	93,505		127,141
Total	<u>435,873</u>	<u>392,826</u>	<u>43,047</u>	<u>410,426</u>
Fire				
Salaries and employee benefits	12,623	3,151		5,190
Other operating expenditures	69,750	67,682		69,904
Total	<u>82,373</u>	<u>70,833</u>	<u>11,540</u>	<u>75,094</u>
Total public safety	<u>\$ 518,246</u>	<u>\$ 463,659</u>	<u>\$ 54,587</u>	<u>\$ 485,520</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, 2013

(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013		VARIANCE POSITIVE (NEGATIVE)	2012
	BUDGET	ACTUAL		ACTUAL
Transportation and Utilities				
Street Repair and Construction				
Salaries and employee benefits	\$ 69,799	\$ 65,380		\$ 57,162
Operating expenses	107,437	91,893		88,694
Total	<u>177,236</u>	<u>157,273</u>	<u>19,963</u>	<u>145,856</u>
Total transportation and utilities	<u>177,236</u>	<u>157,273</u>	<u>19,963</u>	<u>145,856</u>
Environmental Protection				
Sanitation				
Salaries and employee benefits	55,642	56,173		53,416
Other operating expenditures	38,239	36,268		37,429
Total	<u>93,881</u>	<u>92,441</u>	<u>1,440</u>	<u>90,845</u>
Total environmental protection	<u>93,881</u>	<u>92,441</u>	<u>1,440</u>	<u>90,845</u>
Debt Service				
Principal	50,542	50,542		58,508
Interest	4,403	4,928		6,882
Total	<u>54,945</u>	<u>55,470</u>	<u>(525)</u>	<u>65,390</u>
Total expenditures	<u>996,911</u>	<u>918,476</u>	<u>78,435</u>	<u>943,419</u>
Revenues over (under) expenditures	<u>\$ (32,000)</u>	<u>\$ 64,060</u>	<u>\$ 96,060</u>	<u>\$ 2,070</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, 2013

(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013		VARIANCE POSITIVE (NEGATIVE)	2012
	BUDGET	ACTUAL		ACTUAL
Other Financing Sources (uses)				
Sale of capital assets	-	-	-	2,013
Transfers	32,000	31,890	(110)	33,147
Total other financing sources (uses)	32,000	31,890	(110)	35,160
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	95,950	\$ 95,950	37,230
FUND BALANCE, BEGINNING		518,552		481,322
FUND BALANCE, ENDING		\$ 614,502		\$ 518,552

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, 2013**  
(With Comparative Actual Totals for the Year Ended June 30, 2012)

	2013		VARIANCE POSITIVE (NEGATIVE)	2012
	BUDGET	ACTUAL		ACTUAL
<b>REVENUES:</b>				
Charges for services:				
Wastewater Treatment	\$ 314,239	\$ 278,875	\$ (35,364)	\$ 258,515
Total operating revenues	314,239	278,875	(35,364)	258,515
<b>NONOPERATING REVENUES</b>				
Miscellaneous	28,016	40,746	12,730	29,289
Total Nonoperating Revenues	28,016	40,746	12,730	29,289
Total Revenues	342,255	319,621	(22,634)	287,804
<b>OPERATING EXPENSES</b>				
Salaries and benefits	182,280	168,173	14,107	164,302
Audit	6,000	6,431	(431)	5,890
Telephone and postage	5,000	5,061	(61)	4,576
Freight	3,800	3,480	320	4,878
Office supplies	1,500	1,348	152	1,304
Light and Heat	52,000	59,765	(7,765)	50,708
Materials and supplies	52,500	47,554	4,946	50,911
Vehicle maintenance	2,500	2,440	60	2,506
Certified lab expense	3,200	2,666	534	2,477
Truck expense	7,000	7,514	(514)	6,500
Insurance and bonds	28,293	30,401	(2,108)	26,476
Equipment and plant maintenance	60,000	42,979	17,021	45,708
Uniforms	5,500	3,174	2,326	4,414
Sludge hauling	75,000	52,958	22,042	58,660
Kerr-Pamlico Basin Association	3,000	2,880	120	2,934
Permits & Fees	5,400	5,152	248	3,603
Beaver control	2,000	2,000	-	2,000
OSHA Compliance	946	562	384	1,610
Lab Analysis	17,200	17,660	(460)	16,585
Miscellaneous	3,200	3,364	(164)	2,197
Capital outlay	-	14,858	(14,858)	12,672
Contingency	10,000	-	10,000	-
Contract maintenance	3,300	2,628	672	2,209

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, 2013**  
(With Comparative Actual Totals for the Year Ended June 30, 2012)

	2013		VARIANCE POSITIVE (NEGATIVE)	2012
	BUDGET	ACTUAL		ACTUAL
Continuing education	-	260	(260)	-
Total	<u>529,619</u>	<u>483,308</u>	<u>46,311</u>	<u>473,120</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer to General Fund	(32,000)	(31,890)	(33,147)	(33,147)
Transfer to Capital Projects	-	-	29,773	-
Transfer from Water Fund	<u>219,364</u>	<u>194,677</u>	<u>(24,687)</u>	<u>222,175</u>
Total Other Financing Sources (Uses)	<u>187,364</u>	<u>162,787</u>	<u>(28,061)</u>	<u>189,028</u>
Revenues and other sources over (under) expenses	<u>\$ -</u>	<u>\$ (900)</u>	<u>\$ (900)</u>	<u>\$ 3,712</u>
Reconciliation of modified accrual basis to full accrual basis:				
Excess of Revenues over (under) Expenditures		(900)		3,712
Capital Outlay		14,858		12,672
Depreciation		<u>(4,270)</u>		<u>(6,441)</u>
Net Income		<u>\$ 9,688</u>		<u>\$ 9,943</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, 2013**  
(With Comparative Actual Totals for the Year Ended June 30, 2012)

	2013		VARIANCE POSITIVE (NEGATIVE)	2012
	BUDGET	ACTUAL		ACTUAL
REVENUES:				
Charges for services:				
Water and sewer sales	\$ 1,116,225	\$ 1,047,808	\$ (68,417)	\$ 1,020,955
Water and sewer taps	6,000	2,788	(3,212)	5,304
Capital reserve revenue	-	-	-	15
Total operating revenues	1,122,225	1,050,596	(71,629)	1,026,274
NONOPERATING REVENUES				
Miscellaneous Revenue	2,000	765	1,235	127
Interest earned	75	2,409	2,334	645
Total nonoperating revenues	2,075	3,174	3,569	772
Total Revenues	1,124,300	1,053,770	(68,060)	1,027,046
OPERATING EXPENSES				
Salaries and benefits	195,748	175,472	20,276	160,622
Water purchases	207,900	205,645	2,255	203,660
Administrative fee	75,762	66,337	9,425	51,109
Rent	-	2,375	(2,375)	-
Audit	6,000	6,431	(431)	5,891
Equipment maintenance	20,000	19,247	753	13,623
Water tank maintenance	16,191	14,934	1,257	14,685
Building maintenance	1,200	689	511	2,098
Contracted services	45,000	44,807	193	35,375
Insurance and bonds	31,087	23,181	7,906	29,291
Group insurance	28,300	29,561	(1,261)	28,284
Departmental supplies & materials	69,310	57,841	11,469	28,046
Telephone and postage	10,600	10,231	369	10,215
Freight	1,800	1,055	745	1,754
Office supplies	5,957	5,611	346	6,832
Lights & heat	9,500	7,116	2,384	7,399
Advertising	-	164	(164)	2,057
Miscellaneous	6,500	2,868	3,632	6,315
Truck expense	17,500	18,008	(508)	21,038
Continuing Education	2,000	1,505	495	2,171
Contingency	15,000	-	15,000	-
Travel	1,000	61	939	688
Installment financing payments	45,332	45,332	-	43,514
Capital Outlay	-	1,887	(1,887)	10,947
EnviroLink	12,500	12,000	500	12,000
Dues & permits	3,500	3,200	300	3,162
Total	\$ 827,687	\$ 755,558	\$ 72,129	\$ 700,776

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, 2013**  
(With Comparative Actual Totals for the Year Ended June 30, 2012)

	2013		VARIANCE POSITIVE (NEGATIVE)	2012
	BUDGET	ACTUAL		ACTUAL
OTHER FINANCING SOURCES (USES):				
Transfer to Wastewater Fund	(219,364)	(194,677)	24,687	(222,175)
Transfer to Water Capital Projects	(73,314)	(73,314)		0
Interest Expense	(3,935)	(3,935)	-	(5,793)
Proceeds of loan	-	25,650	25,650	-
Proceeds of sale of equipment	-	-	-	2,188
Total Financing Sources (Uses)	<u>(296,613)</u>	<u>(246,276)</u>	<u>50,337</u>	<u>(225,780)</u>
Total Expenditures	<u>1,124,300</u>	<u>1,001,834</u>	<u>122,466</u>	<u>926,556</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	51,936	<u>\$ 51,936</u>	100,490
Reconciliation from budgetary basis (modified accrual) to full accrual basis:				
Revenues and other Sources over Expenditures and other uses		51,936		100,490
Budgetary Appropriations:				
Capital Outlay		141,934		111,178
Water & Sewer Capital Projects revenues over (under) expenditures		(41,083)		(31,971)
Loan proceeds received		(25,650)		
Principal Retirements		45,332		43,514
Depreciation		<u>(259,770)</u>		<u>(257,360)</u>
Net Income		<u>\$ (87,301)</u>		<u>\$ (34,149)</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 2013

	PROJECT AUTHORIZATION	PRIOR YEARS	ACTUAL CURRENT YEAR	TOTAL TO DATE	VARIANCE POSITIVE (NEGATIVE)
Revenues:					
North Carolina Rural Economic Development Center Inc:					
Ridgeway Street Sidewalk	\$ 119,359	\$ 108,298	\$ -	\$ 108,298	\$ (11,061)
Norwood Cummings	56,000	56,000	-	56,000	-
Sewer System Rehab	250,000	-	25,650	25,650	(224,350)
Total Revenues	<u>425,359</u>	<u>164,298</u>	<u>25,650</u>	<u>189,948</u>	<u>(235,411)</u>
Expenditures:					
Ridgeway Sidewalk Project	119,359	111,054	-	111,054	8,305
Norwood Cummings	56,000	56,000	-	56,000	-
Sewer System Rehab	500,000	51,300	140,047	191,347	308,653
Total Expenditures	<u>675,359</u>	<u>218,354</u>	<u>140,047</u>	<u>358,401</u>	<u>316,958</u>
Revenues over (under) Expenditures	(250,000)	(54,056)	(114,397)	(168,453)	81,547
Other Financing Sources (Uses)					
Transfer from General Fund	-	27,889	-	27,889	27,889
Transfer from Water & Sewer Funds	-	94,067	73,314	167,381	167,381
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>73,314</u>	<u>250,104</u>	<u>104</u>
Revenues & Other Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ 122,734</u>	<u>\$ (41,083)</u>	<u>\$ 81,651</u>	<u>\$ 81,651</u>

The accompanying notes are an integral part of the financial statements

**OTHER SCHEDULES**

EXHIBIT C-1

TOWN OF WARRENTON, NORTH CAROLINA  
 SCHEDULE OF AD VALOREM TAXES RECEIVABLE

June 30, 2013

FISCAL YEAR	UNCOLLECTED BALANCE		COLLECTIONS	ABATEMENTS & ADJUSTMENTS		UNCOLLECTED BALANCE
	June 30, 2012	ADDITIONS		ADJUSTMENTS	June 30, 2013	
2012 - 2013	\$ -	\$ 442,705	\$ 422,236	\$ -		\$ 20,469
2011 - 2012	20,548		13,359	3		7,192
2010 - 2011	9,955		6,193	(10)		3,752
2009 - 2010	2,423		264	1		2,160
2008 - 2009	2,531		368	-		2,163
2007 - 2008	2,555		98	(1)		2,456
2006 - 2007	2,120		-	-		2,120
2005 - 2006	2,337		47	-		2,290
2004 - 2005	2,169		-	-		2,169
2003 - 2004	1,578		12	1		1,567
2002 - 2003	1,583		192	(1,391)		-
2001 - 2002	1,242		-	(1,242)		-
	<u>\$ 49,041</u>	<u>\$ 442,705</u>	<u>\$ 442,769</u>	<u>\$ (2,639)</u>		<u>\$ 46,338</u>

Reconciliation with revenues:

Total Taxes Collected	\$ 446,358
Interest Collected	<u>(3,589)</u>
Ad-Valorem Taxes Collected	<u>\$ 442,769</u>

**TOWN OF WARRENTON, NORTH CAROLINA**  
**ANALYSIS OF CURRENT TAX LEVY**  
June 30, 2013

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	\$ 69,110,312	0.61	\$ 421,573	\$ 398,284	\$ 23,289
Less old age exemption	(936,183)	0.61	(5,711)	(5,711)	-
Registered motor vehicles	<u>883,740</u>	0.61	<u>5,391</u>		<u>\$ 5,391</u>
Total Levy	69,057,869		421,253	392,573	28,680
Discoveries	3,969,016	0.61	24,211	24,211	-
Abatements	<u>(452,295)</u>	0.61	<u>(2,759)</u>	<u>(2,759)</u>	<u>-</u>
Total Property Valuation	<u>\$ 72,574,590</u>		442,705	414,025	28,680
Less: Uncollected Tax at June 30, 2013			<u>(20,469)</u>	<u>(16,288)</u>	<u>(4,181)</u>
Current Year Taxes Collected			<u>\$ 422,236</u>	<u>\$ 397,737</u>	<u>\$ 24,499</u>
Current Levy Collection %			<u>95.38%</u>	<u>96.07%</u>	<u>85.42%</u>

**COMPLIANCE SECTION**

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

Certified Public Accountants



America Counts on CPAs

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

Jennifer T. Reese, CPA  
Curtis G. Van Horne, CPA  
Cathy E. McKinley, CPA  
Tara H. Roberson, CPA  
K. Jamison Crampton, CPA

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

### Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Warrenton, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the Town of Warrenton's basic financial statements, and have issued our report thereon dated October 31, 2013.

#### Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (13-1, 13-2 and 13-3).

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

[www.wwcecpa.com](http://www.wwcecpa.com)



### 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Town of Warrenton's Response to Findings

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

### Purpose of this Report

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

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

Oxford, North Carolina  
October 31, 2013

**TOWN OF WARRENTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?         Yes     No

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

Noncompliance material to financial statements?  Yes     No

B. Financial Statement Findings

13-1        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.

13-2        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, 2013**

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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.

13-3 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, 2013**

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Section II - Financial Statement Findings

MATERIAL WEAKNESS

13-1 Segregation of Duties

Name of Contact Person: Bettie Davis, Town Clerk

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

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

MATERIAL WEAKNESS

13-2 Preparation of financial Statements

Name of Contact Person: Bettie Davis, Town Clerk

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

Proposed Completion Date: The management personnel will obtain additional training during fiscal year 13-14.

MATERIAL WEAKNESS

13-3 Excess of Expenditures over Appropriations

Name of Contact Person: Bettie Davis, Town Clerk

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

Proposed Completion Date: Management will impelment this procedure immediately.

**TOWN OF WARRENTON  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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Prior Year Audit Findings:

Financial Statement Audit Findings

Finding 12-1:

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

Finding 12-2:

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

Finding 12-3:

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