



**MAXTON McDOWELL**

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*Certified Public Accountant*

**TOWN OF BISCOE, NORTH CAROLINA**

**FINANCIAL STATEMENTS**

June 30, 2006

TOWN OF BISCOE, NORTH CAROLINA

BOARD OF COMMISSIONERS

James E. Blake, Mayor

Jerry Smith

Gene Anderson

Jimmy Cagle, Jr.

John Beard

Michael Criscoe, Mayor Pro-Tem

OFFICIALS

Joshua W. Ray

Town Manager

Lisa Cagle

Town Clerk

TOWN OF BISCOE, NORTH CAROLINA

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MAXTON McDOWELL

Certified Public Accountant

379 South Cox Street  
Asheboro, North Carolina 27203  
Phone: (336) 626-9970  
Fax: (336) 626-5981

Member  
American Institute of Certified  
Public Accountants  
North Carolina Association of  
Certified Public Accountants

126 North Second Street  
Albemarle, North Carolina 28001  
Phone: (704) 983-5012  
Fax: (704) 983-5109

### INDEPENDENT AUDITOR'S REPORT

The Mayor and the Board of Commissioners  
Town of Biscoe  
Biscoe, North Carolina

I 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 Biscoe, North Carolina, as of and for the year ended June 30, 2006, which collectively comprise the Town of Biscoe's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Biscoe, North Carolina's management. My responsibility is to express opinions on these basic financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Biscoe, North Carolina, as of June 30, 2006, and the respective changes in financial position, and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.


In accordance with Government Auditing Standards, I have also issued my report dated September 29, 2006, on my consideration of the Town of Biscoe's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

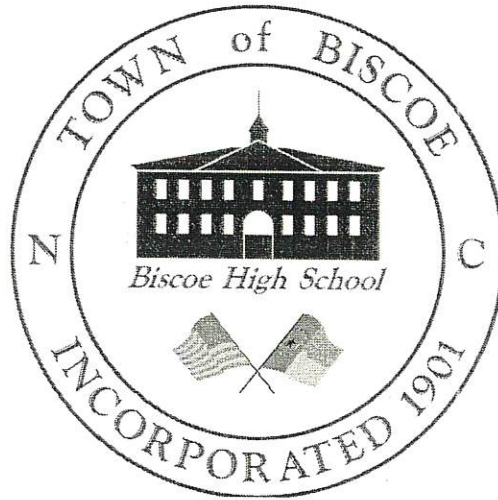
The Mayor and the Board of Commissioners  
Town of Biscoe  
Page Two

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress And Schedule of Employer Contributions on pages 3 through 13 and 43 and 44 respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Biscoe, North Carolina.

September 29, 2006

  
Certified Public Accountant



110 West Main Street  
Post Office Box 1228  
Biscoe, North Carolina 27209  
phone (910) 428-4112  
fax (910) 428-3975

### **Management's Discussion and Analysis**

As management of the Town of Biscoe we offer readers of the Town of Biscoe financial statements this narrative overview and analysis of the financial activities of the Town of Biscoe (Town) for the fiscal year ended June 30, 2006. 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 Biscoe exceeded its liabilities at the close of the fiscal year by \$7,808,229. The assets of the governmental activities exceeded liabilities by \$4,115,523 and the assets of the business-type activities exceeded liabilities by \$3,692,706.
- The government's total net assets increased by \$311,860, primarily due to continued economic growth.
- As of the close of the current fiscal year, the Town of Biscoe's governmental funds reported combined ending fund balances of \$2,428,497, a decrease of \$122,515 in comparison with the prior year. Approximately 42 percent of this total amount, or \$1,029,362, is available for spending at the government's discretion (*unreserved undesignated fund balance*). The Town maintains a minimum of 25% of budgeted expenditures in available fund balance for cash flow and emergencies. The remainder is used for capital expenditures.
- As of the close of the current fiscal year, the Town's business-type activities reported combined ending net assets of \$3,692,706 an increase of \$137,430. A significant portion of this increase is due to continued economic development.

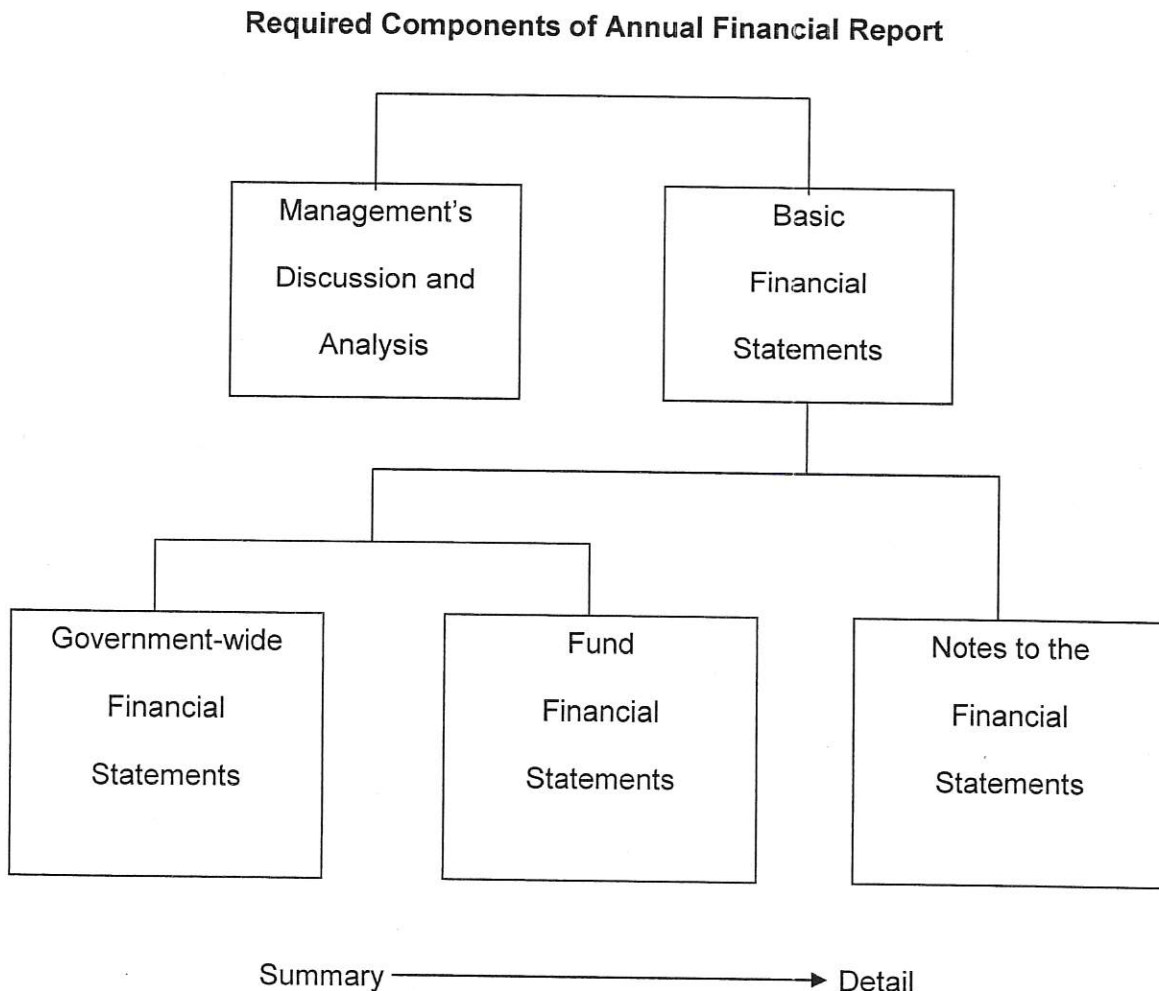


- As of the close of the current fiscal year, the Town's business-type activities reported combined ending net assets of \$3,692,706 an increase of \$137,430. A significant portion of this increase is due to continued economic development.
- The Town of Biscoe's total debt for business-type activities and governmental funds increased due to additions to the Town's water and wastewater systems.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town'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 Biscoe.

Figure 1:



## **Basic Financial Statements**

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

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes and required supplemental financial data, **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 are the statement of net assets and the statement of activities. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition. Over time, increases or decreases in net assets help determine whether the Town's financial position is improving or deteriorating. The statement of activities presents information which show how the Town's net assets changed during the most recent fiscal year.

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, public works, parks and recreation, library, planning and inspections, transportation, and general administration. Property taxes and intergovernmental revenues 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 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, like all other governmental entities in North Carolina, uses fund accounting to

divided into three categories: governmental funds, proprietary funds, and fiduciary 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 which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Town Council 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 Council; 2) the final budget as amended by the Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary Funds** – The Town has one enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its water and sewer activity. This fund is the same as the function shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 26 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 43 of this report.

## Net Assets

The following (Figure 2) reflects condensed information on the Town's net assets.

Figure 2:

### The Town of Biscoe Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets:</b>						
Current and other assests	\$ 2,535,723	\$ 2,659,464	\$ 1,781,281	\$ 1,712,063	\$ 4,317,004	\$ 4,371,527
Capital assets	<u>1,630,803</u>	<u>1,342,946</u>	<u>1,955,970</u>	<u>1,891,481</u>	<u>3,586,773</u>	<u>3,234,427</u>
<b>Total assets</b>	<u>4,166,526</u>	<u>4,002,410</u>	<u>3,737,251</u>	<u>3,603,544</u>	<u>7,903,777</u>	<u>7,605,954</u>
<b>Liabilities:</b>						
Current liabilities	24,903	45,104	34,917	39,009	59,820	84,113
Long-term liabilities	<u>26,100</u>	<u>16,213</u>	<u>9,628</u>	<u>9,259</u>	<u>35,728</u>	<u>25,472</u>
<b>Total liabilities</b>	<u>51,003</u>	<u>61,317</u>	<u>44,545</u>	<u>48,268</u>	<u>95,548</u>	<u>109,585</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	1,630,803	1,342,946	1,955,970	1,891,481	3,586,773	3,234,427
Restricted	14,200	61,457	-	-	14,200	61,457
Unrestricted	<u>2,470,520</u>	<u>2,536,690</u>	<u>1,736,736</u>	<u>1,663,795</u>	<u>4,207,256</u>	<u>4,200,485</u>
<b>Total net assets</b>	<u>\$ 4,115,523</u>	<u>\$ 3,941,093</u>	<u>\$ 3,692,706</u>	<u>\$ 3,555,276</u>	<u>\$ 7,808,229</u>	<u>\$ 7,496,369</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town exceeded liabilities by \$7,808,229 as of June 30, 2006. The Town's net assets increased by \$311,860 for the fiscal year ended June 30, 2006. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,207,256 (53%) is unrestricted.

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

- Increased sales and service revenue due to economic growth. Actual revenue exceeded the original amount budgeted by \$16,877.
- Increased sales tax revenue and other taxes due to the economic growth in the Town. Actual revenue exceeded the amount budgeted by \$53,468.
- Increased franchise tax revenue due to economic growth in the Town. Actual intergovernmental revenues exceeded the amount budgeted by \$188,101.

## Changes in Net Assets

The Town's total revenues and expenses for governmental and business-type activities are reflected in Figure 3.

Figure 3:

### Town of Biscoe Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 32,450	\$ 33,315	\$ 580,315	\$ 627,135	\$ 612,765	\$ 660,450
Operating grants and contributions	72,076	124,516	-	56,000	72,076	180,516
Capital grants and contributions	135,149	-	89,528	-	224,677	-
General revenues:						
Property taxes	512,754	509,140	-	-	512,754	509,140
Other taxes	288,782	285,015	-	-	288,782	285,015
Unrestricted intergovernmental	190,876	179,808	-	-	190,876	179,808
Other	129,481	37,247	48,585	27,463	178,066	64,710
Total revenues	<u>1,361,568</u>	<u>1,169,041</u>	<u>718,428</u>	<u>710,598</u>	<u>2,079,996</u>	<u>1,879,639</u>
Expenses:						
General government	374,346	381,207	-	-	374,346	381,207
Public safety	488,742	482,608	-	-	488,742	482,608
Culture and recreation	74,143	76,280	-	-	74,143	76,280
Transportation	244,907	280,692	-	-	244,907	280,692
Inspections	-	-	-	-	-	-
Environmental	-	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-	-
Water and sewer	-	-	586,274	608,210	586,274	608,210
Total expenses	<u>1,182,138</u>	<u>1,220,787</u>	<u>586,274</u>	<u>608,210</u>	<u>1,768,412</u>	<u>1,828,997</u>
Increase in net assets before transfers	179,430	(51,746)	132,154	102,388	311,584	50,642
Transfers	(5,000)	-	5,000	-	-	-
Increase in net assets	174,430	(51,746)	137,430	102,388	311,860	50,642
Net assets, July 1, as restated	<u>3,941,093</u>	<u>3,992,839</u>	<u>3,555,276</u>	<u>3,452,888</u>	<u>7,496,369</u>	<u>7,445,727</u>
Net assets, June 30	\$ <u>4,115,523</u>	\$ <u>3,941,093</u>	\$ <u>3,692,706</u>	\$ <u>3,555,276</u>	\$ <u>7,808,229</u>	\$ <u>7,496,369</u>

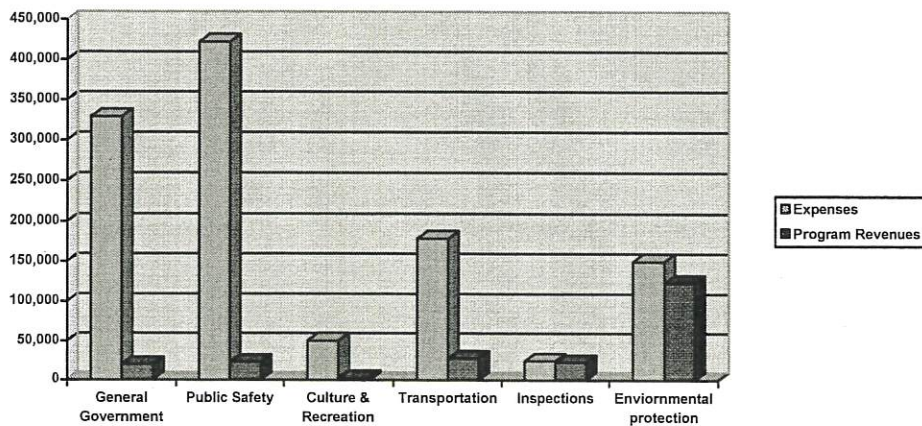
**Governmental activities** – Governmental activities increased the Town's net assets by \$174,430, thereby accelerating the total growth in the net assets of the Town. Key elements of this increase, however, are as follows:

- Current tax collections increased \$5,350 over the prior year.
- Intergovernmental revenue increased by \$93,862 over the prior year primarily due to an increase in Franchise tax revenue.
- Local option sales tax increased approximately \$16,767 over the prior year primarily due to stimulated economic growth. (The sales tax was enacted by the North Carolina General Assembly).

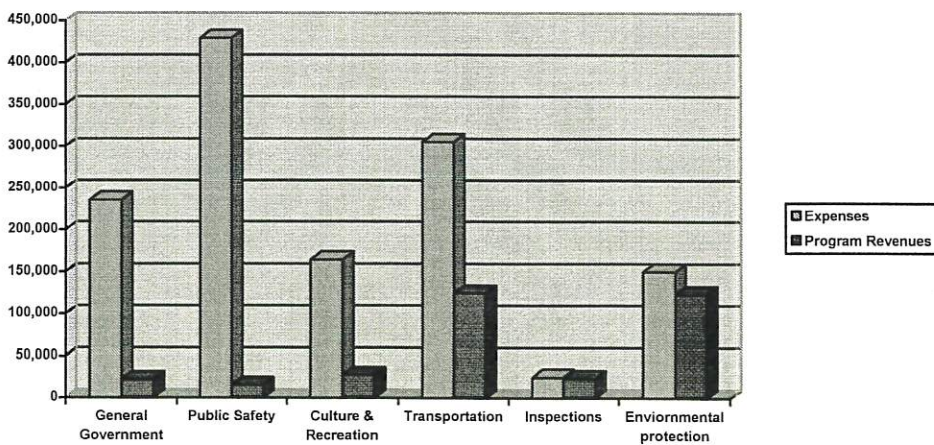
**Figure 4:**

**Town of Biscoe  
Expenses and Program Revenues-Governmental Activities**

Fiscal Year 2004-2005



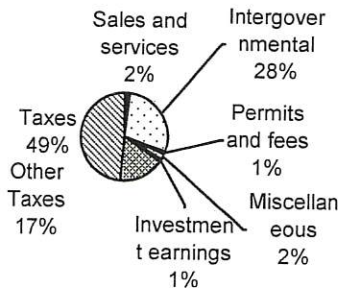
Fiscal Year 2005-2006



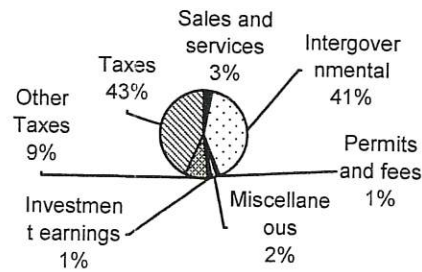
**Figure 5:**

**Town of Biscoe  
Revenues by Source – Governmental Activities**

Fiscal Year 2004-2005



Fiscal Year 2005-2006



**Business-type activities:** Business-type activities increased the Town's assets by \$137,430 accounting for 44% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Capital contributions in the amount of \$89,528.
- Liabilities increased due to new debt for the construction of new equipment at the wastewater treatment plant.

**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'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'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.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,428,497, a decrease of \$122,515 in comparison with the prior year. Of this amount, \$1,029,362, or 42% is unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,029,362 while total fund balance reached \$1,163,248. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund

expenditures. Unreserved fund balance represents 70% of total General Fund expenditures, while total fund balance represents 79% of that same amount.

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

The actual operating revenues for the General Fund were greater than the budgeted amount by \$192,637. Ad valorem taxes were \$36,221 less than the budgeted amount due to property value adjustments. Other taxes and licenses were \$32,282 greater than budgeted due to higher than anticipated local option sales tax revenues.

The actual operating expenses for the General Fund were greater than the budgeted amount by \$82,506. The most significant expense was contributed to improvements to our facilities and grounds at the recreational park. However, this was partially offset due to a grant from North Carolina Parks and Recreation Trust Fund.

**Proprietary Funds.** The Town's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net assets at the end of the fiscal year amounted to \$1,736,736. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town's business-type activities.

### **Capital Asset and Debt Administration**

**Capital assets.** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2006, totals \$3,586,773 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, water distribution system, and vehicles.

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



**Governmental Funds:**

**Additions**

- Parks and Recreation Facility Upgrades totaling \$90,960
- Purchase of Street department capital equipment \$33,263.
- Purchase of Fire Department motorized equipment \$125,000.

**Retirements**

- Disposal of an old police cruiser.

**Proprietary Funds:**

**Additions**

- Various equipment costing \$18,233.
- Construction of Water/Sewer lines.

**Retirements**

- Disposal of a retired pump at waste treatment facility.

**Figure 6:**

**Town of Biscoe  
Capital Assets**

	Governmental Activities 2006	Governmental Activities 2005	Business-type Activities 2006	Business-type Activities 2005	Total 2006	Total 2005
Land	\$ 612,201	\$ 612,201	\$ -	\$ -	\$ 612,201	\$ 612,201
Buildings	2,025,513	1,907,106	-	-	2,025,513	1,907,106
Equipment & vehicles	1,205,801	920,060	-	-	1,205,801	920,060
Water distribution systems	-	-	3,851,005	3,668,435	3,851,005	3,668,435
<b>Total Net Assets</b>	<b>3,843,515</b>	<b>3,439,367</b>	<b>3,851,005</b>	<b>3,668,435</b>	<b>7,694,520</b>	<b>7,107,802</b>
Depreciation	(2,212,712)	(2,096,421)	(1,895,035)	(1,776,954)	(4,107,747)	(3,873,375)
<b>Total Capital Assets (net of accumulated depreciation)</b>	<b>\$ 1,630,803</b>	<b>\$ 1,342,946</b>	<b>\$ 1,955,970</b>	<b>\$ 1,891,481</b>	<b>\$ 3,586,773</b>	<b>\$ 3,234,427</b>

Additional information on the Town's capital assets can be found in note 3 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2006, the Town of Biscoe does not have any outstanding long-term debt.

## **Economic Factors and Next Year's Budget and Rates**

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

- The Montgomery County unemployment rate of 5.1% is below the State average of 5.4%.
- Retail sales increased 5.3% over the prior year.

## **Next Year's Budget Highlights for the Fiscal Year Ending June 30, 2007**

**Governmental Activities:** The governmental fund's primary revenue resources are property taxes and other taxes and licenses. For the fiscal year ending June 30, 2007, the budgeted revenues remained consistent with prior year's actual amounts.

Property taxes and other taxes and licenses are expected to increase 2.1% over the prior year's budget. The majority of the increase in revenues is due to the growth in the ad Valorem tax base. The fiscal year 2005-2006 included a \$.01 tax rate decrease due to quality budgeting.

Budgeted operating expenditures in the General Fund are expected to increase 3% over the prior year's actual amount. The largest increase is in the area of the police department.

**Business – type Activities:** The water and sewer rates in the Town remain the same for the next fiscal year. Budgeted water and sewer revenues remained consistent with the prior year's actual amounts.

Budgeted operating expenses increased 2.9% over the prior fiscal year's budget. Equipment and vehicles will continue to be replaced as needed.

## **Requests for Information**

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

**TOWN OF BISCOE, NORTH CAROLINA****STATEMENT OF NET ASSETS**

June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets:</b>			
Current Assets:			
Cash and cash equivalents	\$ 2,335,714	\$ 1,565,106	\$ 3,900,820
Taxes receivable (net)	82,323	-	82,323
Accounts receivable (net)	-	83,254	83,254
Inventories	-	31,765	31,765
Internal balances	(2,000)	2,000	-
Due from other governments	119,686	89,528	209,214
Total Current Assets	<u>2,535,723</u>	<u>1,771,653</u>	<u>4,307,376</u>
Restricted Assets:			
Cash and cash equivalents	-	9,628	9,628
Non-current Assets:			
Capital Assets (Note 1):			
Land, non-depreciable improvements, and construction in progress	612,201	-	612,201
Other capital assets, net of depreciation	1,018,602	1,955,970	2,974,572
Total Capital Assets	<u>1,630,803</u>	<u>1,955,970</u>	<u>3,586,773</u>
<b>Total Assets</b>	<u>4,166,526</u>	<u>3,737,251</u>	<u>7,903,777</u>
<b>Liabilities:</b>			
Current Liabilities:			
Accounts payable and accrued expenses	24,903	34,917	59,820
Customer deposits	-	9,628	9,628
Current portion of compensated absences	26,100	-	26,100
Total Current Liabilities	<u>51,003</u>	<u>44,545</u>	<u>95,548</u>
<b>Total Liabilities</b>	<u>51,003</u>	<u>44,545</u>	<u>95,548</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	1,630,803	1,955,970	3,586,773
Restricted for:			
Public safety	14,200	-	14,200
Unrestricted	2,470,520	1,736,736	4,207,256
<b>Total Net Assets</b>	<u>\$ 4,115,523</u>	<u>\$ 3,692,706</u>	<u>\$ 7,808,229</u>

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

**TOWN OF BISCOE, NORTH CAROLINA**

**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General government	\$ 374,346	\$ 1,573	\$ -	\$ -	\$(372,773)	\$ -	\$(372,773)
Public safety	488,742	-	299	125,360	(363,083)	-	(363,083)
Transportation	244,907	-	71,777	-	(173,130)	-	(173,130)
Cultural and recreational	74,143	30,877	-	9,789	(33,477)	-	(33,477)
Total Governmental Activities (See Note 1)	1,182,138	32,450	72,076	135,149	(942,463)	-	(942,463)
Business-type Activities:							
Water and sewer	586,274	580,591	-	89,528	-	83,845	83,845
Total Business-type Activities	586,274	580,591	-	89,528	-	83,845	83,845
<b>Total Primary Government</b>	<b>\$ 1,768,412</b>	<b>\$ 613,041</b>	<b>\$ 72,076</b>	<b>\$ 224,677</b>	<b>(942,463)</b>	<b>\$ 83,845</b>	<b>(858,618)</b>
<b>General Revenues:</b>							
Taxes:							
Property taxes, levied for general purpose					512,754	-	512,754
Other taxes					288,782	-	288,782
Unrestricted intergovernmental					190,876	-	190,876
Unrestricted investment earnings					72,966	40,566	113,532
Miscellaneous					56,515	8,019	64,534
Transfers					(5,000)	5,000	-
<b>Total General Revenues and Transfers</b>					<b>1,116,893</b>	<b>53,585</b>	<b>1,170,478</b>
Change in net assets					174,430	137,430	311,860
<b>Net Assets, Beginning</b>					<b>3,941,093</b>	<b>3,555,276</b>	<b>7,496,369</b>
<b>Net Assets, Ending</b>					<b>\$ 4,115,523</b>	<b>\$ 3,692,706</b>	<b>\$ 7,808,229</b>

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

TOWN OF BISCOE, NORTH CAROLINA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
 June 30, 2006

	<u>Major Funds</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Capital Reserve</u>	
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,070,465	\$ 1,265,249	\$ 2,335,714
Receivables, net:			
Taxes	82,323	-	82,323
Due from other governments	<u>119,686</u>	<u>-</u>	<u>119,686</u>
<b>Total Assets</b>	<b>\$ <u>1,272,474</u></b>	<b>\$ <u>1,265,249</u></b>	<b>\$ <u>2,537,723</u></b>
<b>Liabilities and Fund Balances:</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 24,903	\$ -	\$ 24,903
Deferred revenue	82,323	-	82,323
Due to other funds	<u>2,000</u>	<u>-</u>	<u>2,000</u>
<b>Total Liabilities</b>	<b><u>109,226</u></b>	<b><u>-</u></b>	<b><u>109,226</u></b>
Fund Balances:			
Reserved for:			
State statute	119,686	-	119,686
Streets-Powell bill	-	-	-
Equitable sharing	14,200	-	14,200
Unreserved:			
Designated for subsequent year's expenditures	-	25,000	25,000
Designated for capital projects	-	1,240,249	1,240,249
Undesignated	<u>1,029,362</u>	<u>-</u>	<u>1,029,362</u>
<b>Total Fund Balances</b>	<b><u>1,163,248</u></b>	<b><u>1,265,249</u></b>	<b>2,428,497</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ <u>1,272,474</u></b>	<b>\$ <u>1,265,249</u></b>	

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

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

Gross capital assets at historical cost	\$ 3,843,515
Accumulated Depreciation	<u>(2,212,712)</u>

1,630,803

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

82,323

Some liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the funds. (Note 1)

(26,100)

Net assets of governmental activities

\$ 4,115,523

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

**TOWN OF BISCOE, NORTH CAROLINA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2006

	<u>Major Funds</u>		Total
	<u>General</u>	<u>Capital</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Reserve</u>	<u>Funds</u>
<b>Revenues:</b>			
Ad valorem taxes	\$ 493,779	\$ -	\$ 493,779
Other taxes and licenses	288,782	-	288,782
Unrestricted intergovernmental	190,876	-	190,876
Restricted intergovernmental	207,225	-	207,225
Permits and fees	1,325	-	1,325
Sales and services	30,877	-	30,877
Investment earnings	25,764	47,202	72,966
Miscellaneous	17,159	-	17,159
	<u>1,255,787</u>	<u>47,202</u>	<u>1,302,989</u>
<b>Total Revenues</b>			
<b>Expenditures:</b>			
Current:			
General government	328,508	-	328,508
Public safety	679,282	-	679,282
Transportation - streets	379,692	-	379,692
Cultural and recreational	79,374	-	79,374
	<u>1,466,856</u>	<u>-</u>	<u>1,466,856</u>
<b>Total Expenditures</b>			
<b>Revenues Over (Under) Expenditures</b>	<u>(211,069)</u>	<u>47,202</u>	<u>(163,867)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	50,000	-	50,000
Transfers to other funds	-	(55,000)	(55,000)
Sale of Capital Asset	46,352	-	46,352
	<u>96,352</u>	<u>(55,000)</u>	<u>41,352</u>
<b>Total Other Financing Sources (Uses)</b>			
<b>Net Change in Fund Balance</b>	(114,717)	(7,798)	(122,515)
<b>Fund Balance, Beginning</b>	<u>1,277,965</u>	<u>1,273,047</u>	<u>2,551,012</u>
<b>Fund Balance, Ending</b>	\$ <u><u>1,163,248</u></u>	\$ <u><u>1,265,249</u></u>	\$ <u><u>2,428,497</u></u>

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

TOWN OF BISCOE, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2006

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

Net changes in fund balances - total governmental funds \$ (122,515)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	\$ 410,896	
Depreciation expense for governmental assets	(116,291)	
Asset disposal	<u>(6,748)</u>	
		287,857

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue for tax revenues		18,975
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		<u>(9,887)</u>
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Total changes in net assets of governmental activities	\$	<u><u>174,430</u></u>
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The notes to the financial statements are an integral part of this statement.

**TOWN OF BISCOE, NORTH CAROLINA**  
**GENERAL FUND AND ANNUALLY BUDGETED**  
**MAJOR CAPITAL RESERVE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the Year Ended June 30, 2006**

	General Fund				Capital Reserve Fund			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>								
Ad valorem taxes	\$ 530,000	\$ 556,300	\$ 493,779	\$ (62,521)	\$ -	\$ -	\$ -	\$ -
Other taxes and licenses	256,500	235,314	288,782	53,468	-	-	-	-
Unrestricted intergovernmental	169,500	149,000	190,876	41,876	-	-	-	-
Restricted intergovernmental	74,150	61,000	207,225	146,225	-	-	-	-
Permits and fees	500	600	1,325	725	-	-	-	-
Sales and services	29,000	14,000	30,877	16,877	-	-	-	-
Investment earnings	1,000	10,150	25,764	15,614	15,000	15,000	47,202	32,202
Miscellaneous	2,500	10,000	17,159	7,159	-	-	-	-
<b>Total Revenues</b>	<b>1,063,150</b>	<b>1,036,364</b>	<b>1,255,787</b>	<b>219,423</b>	<b>15,000</b>	<b>15,000</b>	<b>47,202</b>	<b>32,202</b>
<b>Expenditures:</b>								
Current:								
General government	320,215	308,103	328,508	(20,405)	-	-	-	-
Public safety	529,200	446,683	679,282	(232,599)	-	-	-	-
Transportation - streets	331,395	331,303	379,692	(48,389)	-	-	-	-
Cultural and recreational	61,040	50,495	79,374	(28,879)	-	-	-	-
<b>Total Expenditures</b>	<b>1,241,850</b>	<b>1,136,584</b>	<b>1,466,856</b>	<b>(330,272)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(178,700)</b>	<b>(100,220)</b>	<b>(211,069)</b>	<b>(110,849)</b>	<b>15,000</b>	<b>15,000</b>	<b>47,202</b>	<b>32,202</b>
<b>Other Financing Sources (Uses):</b>								
Transfer from other funds	25,000	-	50,000	50,000	-	-	-	-
Transfer to other funds	-	-	-	-	(55,000)	(55,000)	(55,000)	-
Sale of capital assets	10,000	10,000	46,352	36,352	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>35,000</b>	<b>10,000</b>	<b>96,352</b>	<b>86,352</b>	<b>(55,000)</b>	<b>(55,000)</b>	<b>(55,000)</b>	<b>-</b>
<b>Fund Balance Appropriated</b>	<b>143,700</b>	<b>90,220</b>	<b>-</b>	<b>(90,220)</b>	<b>40,000</b>	<b>40,000</b>	<b>-</b>	<b>(40,000)</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>(114,717)</b>	<b>(114,717)</b>	<b>-</b>	<b>-</b>	<b>(7,798)</b>	<b>(7,798)</b>
<b>Fund Balance, Beginning</b>			<b>1,277,965</b>				<b>1,273,047</b>	
<b>Fund Balance, Ending</b>			<b>1,163,248</b>				<b>1,265,249</b>	

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



**TOWN OF BISCOE, NORTH CAROLINA****STATEMENT OF NET ASSETS****PROPRIETARY FUND**

June 30, 2006

	<u>Major Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
<b>Assets:</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,565,106	\$ 1,565,106
Accounts receivable (net)	83,254	83,254
Due from other funds	2,000	2,000
Due from other governments	89,528	89,528
Inventories	31,765	31,765
	<u>1,771,653</u>	<u>1,771,653</u>
Total Current Assets		
Noncurrent Assets:		
Restricted assets:		
Cash and cash equivalents	9,628	9,628
Capital Assets:		
Other capital assets, net of depreciation	1,955,970	1,955,970
Capital assets (net)	1,955,970	1,955,970
	<u>1,965,598</u>	<u>1,965,598</u>
Total Noncurrent Assets		
	<u>1,965,598</u>	<u>1,965,598</u>
<b>Total Assets</b>	<b>\$ <u>3,737,251</u></b>	<b>\$ <u>3,737,251</u></b>
<b>Liabilities:</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 34,917	\$ 34,917
Customer deposits	9,628	9,628
	<u>44,545</u>	<u>44,545</u>
Total Current Liabilities		
	<u>44,545</u>	<u>44,545</u>
<b>Total Liabilities</b>	<b><u>44,545</u></b>	<b><u>44,545</u></b>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	1,955,970	1,955,970
Unrestricted	1,736,736	1,736,736
	<u>3,692,706</u>	<u>3,692,706</u>
<b>Total Net Assets</b>	<b>\$ <u>3,692,706</u></b>	<b>\$ <u>3,692,706</u></b>

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

**TOWN OF BISCOE, NORTH CAROLINA****STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND**

For the Year Ended June 30, 2006

	<u>Major Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
<b>Operating Revenues:</b>		
Charges for services	\$ 580,591	\$ 580,591
<b>Total Operating Revenues</b>	<u>580,591</u>	<u>580,591</u>
<b>Operating Expenses:</b>		
Water and sewer operations	468,193	468,193
Depreciation	118,081	118,081
<b>Total Operating Expenses</b>	<u>586,274</u>	<u>586,274</u>
<b>Operating Income (Loss)</b>	<u>(5,683)</u>	<u>(5,683)</u>
<b>Nonoperating Revenues (Expenses):</b>		
Investment earnings	40,566	40,566
Tax refunds	1,040	1,040
Miscellaneous	6,979	6,979
<b>Total Nonoperating Revenues (Expenses)</b>	<u>48,585</u>	<u>48,585</u>
<b>Income (Loss) Before Contributions and Transfers</b>	42,902	42,902
Capital contributions	89,528	89,528
Transfer from other funds	5,000	5,000
<b>Change in Net Assets</b>	137,430	137,430
<b>Net Assets, Beginning</b>	<u>3,555,276</u>	<u>3,555,276</u>
<b>Net Assets, Ending</b>	<u>\$ 3,692,706</u>	<u>\$ 3,692,706</u>

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

**TOWN OF BISCOE, NORTH CAROLINA**

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
For the Fiscal Year Ended June 30, 2006

	Major Enterprise Fund	
	Water and Sewer Fund	Total
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers	\$ 564,365	\$ 564,365
Cash paid for goods and services	(463,166)	(463,166)
Cash paid to or on behalf of employees for services	(110,323)	(110,323)
	(9,124)	(9,124)
<b>Net Cash Provided (Used) by Operating Activities</b>		
<b>Cash Flows From Noncapital Financing Activities:</b>		
Transfers from other funds	5,000	5,000
	5,000	5,000
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Acquisition and construction of capital assets	(182,570)	(182,570)
Capital contributions - State Grant	89,528	89,528
Tax refunds	1,040	1,040
Miscellaneous	6,979	6,979
	(85,023)	(85,023)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>		
<b>Cash Flows from Investing Activities:</b>		
Interest and dividends	40,566	40,566
	40,566	40,566
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(48,581)	(48,581)
<b>Balance, Beginning of the Year</b>	1,623,315	1,623,315
<b>Balance, End of the Year</b>	\$ 1,574,734	\$ 1,574,734

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

TOWN OF BISCOE, NORTH CAROLINA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Fiscal Year Ended June 30, 2006

	Major Enterprise Fund	
	Water and Sewer Fund	Total
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities:</b>		
Operating income (loss)	\$ (5,683)	\$ (5,683)
<b>Adjustments to Reconcile Operating Income to Net Cash</b>		
<b>Provided by Operating Activities:</b>		
Depreciation	118,081	118,081
<b>Changes in Assets and Liabilities:</b>		
(Increase) decrease in accounts receivable	(20,670)	(20,670)
(Increase) decrease in due from other funds	(2,000)	(2,000)
(Increase) decrease from other governments	(89,528)	(89,528)
(Increase) decrease in inventory	(5,601)	(5,601)
Increase (decrease) in accounts payable and accrued liabilities	(4,092)	(4,092)
Increase (decrease) in customer deposits	369	369
<b>Total Adjustments</b>	(3,441)	(3,441)
<b>Net Cash Provided by Operating Activities</b>	\$ (9,124)	\$ (9,124)

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

**TOWN OF BISCOE, NORTH CAROLINA**

**STATEMENT OF FIDUCIARY NET ASSETS**

**FIDUCIARY FUND**

June 30, 2006

	<u>Pension Trust Fund</u>	
	<u>Special Separation Allowance Fund</u>	<u>Total</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 62,394	\$ 62,394
Accrued interest	<u>480</u>	<u>480</u>
<b>Total Assets</b>	<b>\$ <u>62,874</u></b>	<b>\$ <u>62,874</u></b>
<b>Net Assets:</b>		
Reserved for employees' pension benefits	<u>\$ 62,874</u>	<u>\$ 62,874</u>
<b>Total Net Assets</b>	<b>\$ <u>62,874</u></b>	<b>\$ <u>62,874</u></b>

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

**TOWN OF BISCOE, NORTH CAROLINA****STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**

For the Fiscal Year Ended June 30, 2006

	<u>Pension Trust Fund</u>	
	<u>Special Separation Allowance Fund</u>	<u>Total</u>
<b>Additions:</b>		
Investment Earnings	\$ 1,576	\$ 1,576
Municipal Contributions	5,751	5,751
<b>Total Additions</b>	<u>7,327</u>	<u>7,327</u>
<b>Change in Net Assets</b>	7,327	7,327
<b>Total Net Assets, Beginning</b>	<u>55,547</u>	<u>55,547</u>
<b>Total Net Assets, Ending</b>	<u>\$ 62,874</u>	<u>\$ 62,874</u>

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

## TOWN OF BISCOE, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS

For The Fiscal Year Ended June 30, 2006

#### Note 1 - Summary of Significant Accounting Policies

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

##### Reporting Entity

The Town of Biscoe is a municipal corporation which is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, the Town includes any component unit for which it is financially accountable. For the year ended June 30, 2006, no component units were included in the financial statements.

##### Basis of Presentation

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. 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 nonmajor funds.

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

**TOWN OF BISCOE, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

The Town reports the following major governmental funds:

**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 and State-shared revenues. The primary expenditures are for public safety, streets and highways, transportation, and general government services.

**Capital Reserve Special Revenue Fund.** This fund is used to account for funds that are legally restricted to expenditures for specified purposes.

The Town reports the following major enterprise fund:

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

Additionally, the Town reports the following fiduciary fund:

**Special Separation Allowance Pension Trust Fund.** This fund is used to account for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system.

Measurement Focus and Basis of Accounting

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

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



**TOWN OF BISCOE, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable 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 North Carolina. Effective with this change in the law, Montgomery 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 Biscoe. 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 Town's vehicle taxes for vehicles registered in Montgomery County from March 2005 through February 2006 apply to the fiscal year ended June 30, 2006. Uncollected taxes, which were billed during this period, are shown as a receivable in these financial statements and are offset by deferred revenues. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annually registration expired December 31<sup>st</sup> each year with taxes due by May 1<sup>st</sup> of the following year. To transition from the annual into the staggered registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. 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

## TOWN OF BISCOE, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### Note 1 - Summary of Significant Accounting Policies (Continued)

##### Measurement Focus and Basis of Accounting (Concluded)

block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

##### Budgetary Data

The Town's budget is adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Capital Reserve Fund, and the Enterprise Fund (except the Water and Sewer Capital Project Fund). All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. The Town Finance Officer is authorized to transfer appropriations between functional areas within a fund up to \$1,000; however, any revisions that alter the total expenditures of any fund or that changes functional appropriations by more than \$1,000 must be approved by the governing board. No amendments were made during the year to the original budget.

##### Assets, Liabilities, and Fund Equity

###### Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings 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).

**TOWN OF BISCOE, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Fund Equity (Continued)

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.

Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

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 September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2003. 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.

Allowances for Doubtful Accounts

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

Inventory

Inventories are maintained for all enterprise fund supplies. They are valued at cost (first-in, first-out), which approximates market. The inventory of the enterprise fund consists of expendable supplies that are recorded as an expenditure when it is consumed.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 1,000, an estimated useful life in excess of two years. Minimum capitalization costs for land, buildings, furniture and equipment, and vehicles has been set at \$1,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General

TOWN OF BISCOE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Fund Equity (Continued)

Capital Assets (Concluded)

infrastructure assets acquired prior to July 1, 2003, consist of road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Class	Estimated Useful Lives
Buildings	29
Furniture and office equipment	7-10
Maintenance and construction equipment	5-7
Medium and heavy motor vehicles	5-7
Automobiles and light trucks	3-5

Compensated Absences

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

The Town's sick leave policy provides for a maximum of 90 days of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

**TOWN OF BISCOE, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Note 1 - Summary of Significant Accounting Policies (Concluded)

Assets, Liabilities, and Fund Equity (Concluded)

Net Assets/Fund Balances

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

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13 (b) (16) ] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved by State statute - portion of fund balance not available for appropriation under State law [ G.S. 159-8 (a) ]. This amount is usually comprised of accounts receivable and interfund receivables, which have not been offset by deferred revenues.

Reserved for streets - Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. It represents the balance of the total unexpended Powell Bill funds.

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2006-2007 budget ordinance.

Designated for capital projects – portion of total fund balance available for appropriation which has been designated for capital projects.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

## TOWN OF BISCOE, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### Note 2 - Stewardship, Compliance, and Accountability

##### Material Violations of Finance-Related Legal and Contractual Provisions

###### Noncompliance with North Carolina General Statutes

The Town adopts its budget on a departmental basis. At June 30, 2006, the General Fund showed expenditures over budget in several departments. This is in violation of General Statute 159-28(a) of the laws of North Carolina. Management will be more involved in the expenditure control process.

#### Note 3 - Detail Notes on All Funds

##### Assets

###### Deposits

All the deposits of the Town and 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 its name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in 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 under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2006, the Town's deposits had a carrying amount of \$3,952,672 and a bank balance of \$3,935,794. Of the bank balance, \$200,000 was covered by federal depository insurance, and \$3,735,794 was covered by collateral held by authorized escrow agents in the name of the Town. At June 30, 2006, the Town's petty cash fund totaled \$780.

**TOWN OF BISCOE, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Note 3 - Detail Notes on All Funds (Continued)

Assets (Continued)

Receivables – Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and Statement of Net Assets are net of the following allowances for doubtful accounts:

Fund	6/30/2006
General Fund	
Taxes receivable	\$ 2,431
Enterprise Fund:	
Accounts receivable	<u>6,000</u>
Total	<u>\$ 8,431</u>

Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2006, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 612,201	\$ -	\$ -	\$ 612,201
Total Capital Assets Not Being Depreciated	<u>612,201</u>	<u>-</u>	<u>-</u>	<u>612,201</u>
Capital Assets Being Depreciated:				
Buildings	1,907,106	13,570	6,748	1,913,928
Infrastructure	-	111,585		111,585
Equipment	406,569	56,780		463,349
Vehicles and motorized equipment	<u>513,491</u>	<u>228,961</u>	<u>-</u>	<u>742,452</u>
Total Capital Assets Being Depreciated	<u>2,827,166</u>	<u>410,896</u>	<u>6,748</u>	<u>3,231,314</u>
Less Accumulated Depreciation For:				
Buildings	1,299,682	51,130	-	1,350,812
Infrastructure	-	465		465
Equipment	355,023	28,345		383,368
Vehicles and motorized equipment	<u>441,716</u>	<u>36,351</u>	<u>-</u>	<u>478,067</u>
Total Accumulated Depreciation	<u>2,096,421</u>	<u>\$ 116,291</u>	<u>\$ -</u>	<u>2,212,712</u>
Total Capital Assets Being Depreciated, Net	<u>730,745</u>			<u>1,018,602</u>
<b>Governmental Activity             Capital Assets, Net</b>	<u>\$ 1,342,946</u>			<u>\$ 1,630,803</u>

**TOWN OF BISCOE, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Note 3 - Detail Notes on All Funds (Continued)

Assets (Concluded)

Capital Assets (Concluded)

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

General government	\$	47,631
Public safety		49,298
Transportation		11,093
Cultural and recreational		8,269
		<u>          </u>
Total Depreciation Expense	\$	<u><u>116,291</u></u>

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
<b>Business-Type Activities:</b>				
<b>Water and Sewer Fund</b>				
Capital Assets Being Depreciated:				
Plant and distribution systems	\$ 3,192,246	\$ 66,584	\$ -	\$ 3,258,830
Furniture and maintenance equipment	382,480	115,986	-	498,466
Vehicles	93,709	-	-	93,709
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Capital Assets Being Depreciated	<u>3,668,435</u>	<u>182,570</u>	<u>-</u>	<u>3,851,005</u>
Less Accumulated Depreciation For:				
Plant and distribution systems	1,500,814	79,717	-	1,580,531
Furniture and maintenance equipment	184,103	36,693	-	220,796
Vehicles	92,037	1,671	-	93,708
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Accumulated Depreciation	<u>1,776,954</u>	<u>\$ 118,081</u>	<u>\$ -</u>	<u>1,895,035</u>
Total Capital Assets Being Depreciated, Net	<u>1,891,481</u>			<u>1,955,970</u>
Water and Sewer Fund Capital Assets, Net	<u>1,891,481</u>			<u>1,955,970</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 1,891,481</u>			<u>\$ 1,955,970</u>



## TOWN OF BISCOE, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### Note 3 - Detail Notes on All Funds (Continued)

##### Liabilities

##### Pension Plan Obligations

###### Local Governmental Employees' Retirement System

*Plan Description.* The Town of Biscoe 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, NC 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute 6 percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 10.29% and 10.27% of covered payroll, respectively. The contribution requirements of members and of the Town of Biscoe are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2006, 2005, and 2004 were \$49,550, \$48,584, and \$43,880, respectively. The contributions made by the Town equaled the required contributions for each year.

###### Law Enforcement Officers Special Separation Allowance

###### Plan Description

The Town of Biscoe administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Separation Allowance is reported in the Town's report as a pension trust fund.

TOWN OF BISCOE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 3 - Detail Notes on All Funds (Continued)

Liabilities (Continued)

Pension Plan Obligations (Continued)

Law Enforcement Officers Special Separation Allowance (Continued)

Plan Description (Concluded)

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2005, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	8
Total	<u>8</u>

Summary of Significant Accounting Policies

*Basis of Accounting.* Financial statements for the Separation Allowance are prepared using the modified accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments.* Investments are reported at fair value. Short-term debt, deposits, and repurchase agreements are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price.

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the Town contributed \$5,751, or 2.41% of annual covered payroll. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administrative costs of the Separation Allowance are financed through investment earnings.

**TOWN OF BISCOE, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Note 3 - Detail Notes on All Funds (Continued)

Liabilities (Continued)

Pension Plan Obligations (Continued)

Law Enforcement Officers Special Separation Allowance (Concluded)

Contributions (Concluded)

The annual required contribution for the current year was determined as part of the December 31, 2005 actuarial valuation using the aggregate method. The actuarial assumptions included (a) a 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.9-9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases.

*Annual Pension Cost and Net Pension Obligation.* The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Employment annual required contribution	\$	5,751
Interest on net pension obligation		199
Adjustment to annual required contribution		(158)
Annual pension cost		5,792
Employer contributions made		5,751
Increase (decrease) in net pension obligation		41
Net pension obligation beginning of fiscal year		2,743
Net pension obligation end of fiscal year	\$	2,784

3 Year Trend Information			
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 5,160	94.96%	\$ 2,651
2004	5,172	99.09%	2,698
2005	5,308	99.16%	2,743
2006	5,792	99.28%	2,784

TOWN OF BISCOE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 3 - Detail Notes on All Funds (Continued)

Liabilities (Continued)

Pension Plan Obligations (Continued)

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 for employees not engaged in law enforcement and 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.

*Funding Policy.* Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5 percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2006 were \$25,500, which consisted of \$17,449 from the Town, \$8,051 from the law enforcement officers.

Firemen's and Rescue Squad Workers' Pension Fund

*Plan Description.* The State of North Carolina contributes, on behalf of the Town of Biscoe, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund 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 the Fund. 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 \$10 per month to the Fund, which is paid by the Town. The State, a non-employer contributor, funds the plan through appropriations. Contribution requirements for plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

**TOWN OF BISCOE, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Note 3 - Detail Notes on All Funds (Continued)

Liabilities (Continued)

Pension Plan Obligations (Concluded)

Other Post-Employment Benefits

At retirement, all employees have the option to purchase basic medical insurance at the Town's group rate. The entire cost of this insurance is borne by the employees.

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2006, the Town made contributions to the State for death benefits of \$320. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

Deferred Revenues

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

	General Fund
Prepaid taxes not yet earned	\$ -
Taxes receivable (net)	82,323
Total	\$ 82,323

**TOWN OF BISCOE, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Note 3 - Detail Notes on All Funds (Continued)

Liabilities (Concluded)

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 \$2 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 is not required to carry flood insurance because the Town is not in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency.

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

Long-Term Obligations

At June 30, 2006, the Town had a legal debt margin of approximately \$7,349,376.

**TOWN OF BISCOE, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

Note 3 - Detail Notes on All Funds (Concluded)

Interfund Balances and Activity

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2006, consist of the following:

From the Capital Reserve Fund to the Water and Sewer Fund	\$ 5,000
From the Capital Reserve Fund to the General Fund	50,000
Total	<u>\$ 55,000</u>

Transfers from the Capital Reserve Fund to the Water and Sewer Fund and the General Fund were used to aid in the purchase of capital assets.

Note 4 - Joint Venture

The Town participates in a joint venture to operate the Montgomery Municipal Board of Alcoholic Beverage Control with four other local governments. Each participating government appoints one board member to the five-member ABC board. None of the participating governments have any equity interest in the Montgomery Municipal Board of Alcoholic Beverage Control, so no equity interest has been reflected in the financial statements at June 30, 2006. Complete financial statements for the Montgomery Municipal Board of Alcoholic Beverage Control can be obtained at the ABC's offices, at P.O. Box 279, Biscoe, NC 27209.

Note 5 - Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

Note 6 - Significant Effects of Subsequent Events

No one is aware of any events between June 30, 2006, and the completion of the financial statements that could have a material effect on the Town.

**TOWN OF BISCOE, NORTH CAROLINA**

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/99 *	N/A	N/A	N/A	N/A	N/A	N/A
12/31/00	\$ 37,616	\$ 54,666	\$ 17,050	68.81%	\$ 203,443	8.38%
12/31/01	42,045	62,708	20,663	67.05%	187,336	11.03%
12/31/02	42,799	64,932	22,133	65.91%	196,508	11.26%
12/31/03	49,001	72,303	23,302	67.77%	193,497	12.04%
12/31/04	55,067	82,956	27,889	66.38%	234,212	11.91%
12/31/05	55,570	75,664	20,094	73.44%	226,771	8.86%

\* N/A denotes a year in which no actuarial study was performed.



TOWN OF BISCOE, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year ended</u> <u>June 30</u>	<u>Annual required</u> <u>contribution</u>	<u>Percentage</u> <u>contributed</u>
2000 *	N/A	N/A
2001 *	N/A	N/A
2002	\$ 4,891	51.00%
2003	5,160	94.96%
2004	5,172	99.09%
2005	5,308	99.15%
2006	5,792	99.28%

\* N/A denotes a year in which no actuarial study was performed.

**Notes to the Required Schedules:**

The information presented in the required supplementary schedules was determined as part actuarial valuation as follows:

Valuation date	12/31/2005
Actuarial cost method	Projected unit credit
Remaining method	Level percent of pay closed
Remaining amortization period	25 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	4.5 - 12.3%
*Includes inflation at	3.75%
Cost-of-living adjustments	N/A

**TOWN OF BISCOE, NORTH CAROLINA**

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Ad Valorem Taxes:			
Taxes	\$	\$ 490,844	\$
Penalties and interest		2,935	
Total	<u>530,000</u>	<u>493,779</u>	<u>(36,221)</u>
Other Taxes and Licenses:			
ABC mixed beverage		2,315	
Local option sales tax		281,684	
Cablevision franchise fee		4,419	
Other taxes		364	
Total	<u>256,500</u>	<u>288,782</u>	<u>32,282</u>
Unrestricted Intergovernmental:			
Franchise tax		176,001	
Beer and wine taxes		7,747	
Tax refunds		7,128	
Total	<u>169,500</u>	<u>190,876</u>	<u>21,376</u>
Restricted Intergovernmental:			
Powell Bill allocation		61,944	
Grant funds		145,281	
Total	<u>74,150</u>	<u>207,225</u>	<u>133,075</u>
Permits and Fees	<u>500</u>	<u>1,325</u>	<u>825</u>
Sales and Services:			
Cemetery lot sales		5,035	
Concession receipts		25,842	
Total	<u>29,000</u>	<u>30,877</u>	<u>1,877</u>
Investment Earnings	<u>1,000</u>	<u>25,764</u>	<u>24,764</u>
Miscellaneous:			
Contributions		380	
Drug seizures		-	
Other		16,779	
Total	<u>2,500</u>	<u>17,159</u>	<u>14,659</u>
<b>Total Revenues</b>	<b>\$ <u>1,063,150</u></b>	<b>\$ <u>1,255,787</u></b>	<b>\$ <u>192,637</u></b>

TOWN OF BISCOE, NORTH CAROLINA

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures:</b>			
General Government:			
Salaries and employee benefits	\$	\$ 141,763	\$
Other operating expenditures		113,146	
Total	<u>251,215</u>	<u>254,909</u>	<u>(3,694)</u>
Legal and professional services:			
Other operating expenditures	<u>27,500</u>	<u>24,825</u>	<u>2,675</u>
Public buildings and grounds:			
Other operating expenditures	<u>50,000</u>	<u>48,774</u>	<u>1,226</u>
Total General Government	<u>328,715</u>	<u>328,508</u>	<u>207</u>
Public Safety:			
Police Department:			
Salaries and employee benefits		356,927	
Other operating expenditures		140,315	
Total	<u>512,550</u>	<u>497,242</u>	<u>15,308</u>
Fire Department:			
Salaries and employee benefits		3,032	
Other operating expenditures		23,783	
Capital outlay		155,225	
Total	<u>78,150</u>	<u>182,040</u>	<u>(103,890)</u>
Total Public Safety	<u>590,700</u>	<u>679,282</u>	<u>(88,582)</u>
Transportation:			
Streets:			
Salaries and employee benefits		91,607	
Other operating expenditures		136,849	
Total	<u>\$ 232,000</u>	<u>\$ 228,456</u>	<u>\$ 3,544</u>

**TOWN OF BISCOE, NORTH CAROLINA**

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures (Concluded):</b>			
Transportation			
Streets - Powell Bill:			
Salaries and employee benefits	\$	\$ 3,369	\$
Other operating expenditures		114,620	
Capital outlay		33,247	
Total	<u>141,395</u>	<u>151,236</u>	<u>(9,841)</u>
Total Transportation - Streets	<u>373,395</u>	<u>379,692</u>	<u>(6,297)</u>
Cultural and Recreational:			
Recreation department:			
Salaries and benefits		33,296	
Other operating expenditures		27,851	
Capital outlay		18,227	
Total Cultural and Recreational	<u>81,540</u>	<u>79,374</u>	<u>2,166</u>
Contingency:	<u>10,000</u>	<u>-</u>	<u>10,000</u>
<b>Total Expenditures</b>	<u>1,384,350</u>	<u>1,466,856</u>	<u>(82,506)</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(321,200)</u>	<u>(211,069)</u>	<u>110,131</u>
<b>Other Financing Sources (Uses):</b>			
Sale of Capital Assets	10,000	46,352	36,352
Transfer/Capital Reserve	<u>25,000</u>	<u>50,000</u>	<u>25,000</u>
<b>Total</b>	<u>35,000</u>	<u>96,352</u>	<u>61,352</u>
<b>Fund Balance Appropriated</b>	286,200	-	(286,200)
<b>Net Change in Fund Balance</b>	\$ <u>-</u>	(114,717) \$	<u>(114,717)</u>
<b>Fund Balance, Beginning</b>		<u>1,277,965</u>	
<b>Fund Balance, Ending</b>		<u>\$ 1,163,248</u>	

**TOWN OF BISCOE, NORTH CAROLINA**

**CAPITAL RESERVE SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues:</b>					
Investment earnings	\$ 15,000	\$ 13,337	\$ 47,202	\$ 60,539	\$ 45,539
<b>Total Revenues</b>	<u>15,000</u>	<u>13,337</u>	<u>47,202</u>	<u>60,539</u>	<u>45,539</u>
<b>Expenditures:</b>					
Capital outlay	-	-	-	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Revenues Over (Under) Expenditures</b>	<u>15,000</u>	<u>13,337</u>	<u>47,202</u>	<u>60,539</u>	<u>45,539</u>
<b>Other Financing Sources (Uses):</b>					
Transfers to other funds	55,000	(90,960)	(55,000)	(145,960)	(90,960)
<b>Total Other Financing Sources (Uses):</b>	<u>55,000</u>	<u>(90,960)</u>	<u>(55,000)</u>	<u>(145,960)</u>	<u>(90,960)</u>
<b>Fund Balance Appropriated</b>	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,000)</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ (77,623)</u>	<u>(7,798)</u>	<u>\$ (85,421)</u>	<u>\$ (85,421)</u>
<b>Fund Balance, Beginning</b>			<u>1,273,047</u>		
<b>Fund Balance, Ending</b>			<u>\$ 1,265,249</u>		

**TOWN OF BISCOE, NORTH CAROLINA**

**CAPITAL PROJECT FUND - CWMTF GRANT  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2006

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues:</b>					
CWMTF Grant	\$ 480,000	\$ -	\$ 89,528	\$ 89,528	\$ (390,472)
STAG Grant	66,000	-	-	-	(66,000)
<b>Total Revenues</b>	<b>546,000</b>	<b>-</b>	<b>89,528</b>	<b>89,528</b>	<b>(456,472)</b>
<b>Expenditures:</b>					
Lagoon	250,000	-	3,912	3,912	246,088
Pump Station	230,000	-	1,098	1,098	228,902
Dechloration	90,000	-	84,518	84,518	5,482
Telemetry	27,000	-	-	-	27,000
Contingency	3,000	-	-	-	3,000
<b>Total Expenditures</b>	<b>600,000</b>	<b>-</b>	<b>89,528</b>	<b>89,528</b>	<b>510,472</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(54,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54,000</b>
<b>Other Financing Sources (Uses):</b>					
Transfers from other funds:	54,000	-	-	-	(54,000)
<b>Total Other Financing Sources (Uses)</b>	<b>54,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(54,000)</b>
<b>Fund Balance Appropriated</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fund Balance, Beginning</b>					
<b>Fund Balance, Ending</b>					<b>\$ -</b>

**TOWN OF BISCOE, NORTH CAROLINA**

**WATER AND SEWER FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**  
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Operating Revenues:			
Charges for services	\$	\$ 580,315	\$
Total Operating Revenues	<u>569,100</u>	<u>580,315</u>	<u>11,215</u>
Nonoperating Revenues:			
Interest earned on investments		40,566	
Grant funds		-	
Tax refunds		1,040	
Miscellaneous		7,254	
Total Nonoperating Revenues	<u>22,000</u>	<u>48,860</u>	<u>26,860</u>
<b>Total Revenues</b>	<u>591,100</u>	<u>629,175</u>	<u>38,075</u>
<b>Expenditures:</b>			
Water and Sewer Operations:			
Salaries and employee benefits		116,032	
Other operating expenditures		172,689	
Purchases for resale		167,771	
Capital outlay		110,344	
Total Water and Sewer Operations	<u>746,700</u>	<u>566,836</u>	<u>179,864</u>
<b>Total Expenditures</b>	<u>746,700</u>	<u>566,836</u>	<u>179,864</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(155,600)</u>	<u>62,339</u>	<u>217,939</u>
<b>Other Financing Sources (Uses):</b>			
Transfer from Capital Reserve Fund	<u>-</u>	<u>5,000</u>	<u>5,000</u>
<b>Fund Balance Appropriated</b>	155,600	-	(155,600)
<b>Revenues and Other Sources Over (Under) Expenditures and Other Financing Uses</b>	<u>\$ -</u>	<u>67,339</u>	<u>\$ 67,339</u>
<b>Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:</b>			
Revenues and Other Sources Over (Under) Expenditures and Other Financing Uses		67,339	
Reconciling Items:			
Depreciation		(118,081)	
Capital outlay		93,042	
Change in inventory		5,602	
Grant contributions		89,528	
<b>Change in Net Assets</b>		<u>\$ 137,430</u>	

TOWN OF BISCOE, NORTH CAROLINA

CAPITAL ASSETS USED IN THE OPERATION  
OF GOVERNMENTAL FUNDS  
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY  
 For the Fiscal Year Ended June 30, 2006

	Balance June 30, 2005	Additions and Transfers in	Disposals and Transfers Out	Balance June 30, 2006
General Government	\$ 2,455,045	\$ 5,994	\$ 6,748	\$ 2,454,291
Public Safety	651,579	245,523	-	897,102
Street and Sanitation	145,626	145,878	-	291,504
Cultural and Recreational	187,117	13,501	-	200,618
Total General Fixed Assets	\$ <u>3,439,367</u>	\$ <u>410,896</u>	\$ <u>6,748</u>	\$ <u>3,843,515</u>



TOWN OF BISCOE, NORTH CAROLINASCHEDULE OF AD VALOREM TAXES RECEIVABLE

June 30, 2006

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2005</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2006</u>
2005-2006	\$ -	\$ 505,846	\$ 470,105	\$ 35,741
2004-2005	29,458	5,516	21,915	13,059
2003-2004	8,269	-	168	8,101
2002-2003	6,317	-	255	6,062
2001-2002	3,160	-	97	3,063
2000-2001	12,716	-	30	12,686
1999-2000	1,377	-	-	1,377
1998-1999	1,765	-	-	1,765
1997-1998	878	183	-	1,061
1996-1997	774	-	-	774
1995-1996	1,065	-	-	1,065
	<u>\$ 65,779</u>	<u>\$ 511,545</u>	<u>\$ 492,570</u>	<u>84,754</u>
Less: Allowance for uncollectible accounts: General Fund				<u>2,431</u>
Ad valorem taxes receivable - net				<u>\$ 82,323</u>
Reconciliation with Revenues: Ad valorem taxes - General Fund				\$ 493,779
Reconciling items:				
Interest collected				(2,935)
Discounts allowed				1,726
Taxes written off				-
Total Collections and Credits				<u>\$ 492,570</u>

**TOWN OF BISCOE, NORTH CAROLINA****ANALYSIS OF CURRENT TAX LEVY****TOWN-WIDE LEVY**

For the Fiscal Year Ended June 30, 2006

	Town-Wide		Total Levy		
			Property exclusing Registered Motor Vehicles	Registered Motor Vehicles	
	Property Valuation	Rate	Total Levy		
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 92,842,520	\$ 0.55	\$ 510,634	\$ 468,241	\$ 42,393
Registered motor vehicles taxed at prior year's rate	2,902,644	0.57	16,545	-	16,545
Penalties	-		-	-	-
<b>Total Original Levy</b>	<u>95,745,164</u>		<u>527,179</u>	<u>468,241</u>	<u>58,938</u>
<b>Discoveries:</b>					
Current year taxes	-	0.55	-	-	-
Penalties	-		-	-	-
<b>Total Discoveries</b>	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
<b>Abatements:</b>					
Taxed at current year's rate	(3,858,411)	0.55	(21,222)	(20,612)	(610)
Taxed at prior year's rate	<u>(19,551)</u>	0.57	<u>(111)</u>	<u>-</u>	<u>(111)</u>
<b>Total Abatements</b>	<u>(3,877,962)</u>		<u>(21,333)</u>	<u>(20,612)</u>	<u>(721)</u>
<b>Total Property Valuation</b>	<u>\$ 91,867,202</u>				
Net levy			505,846	447,629	58,217
Uncollected taxes at June 30, 2006			<u>(35,741)</u>	<u>(25,228)</u>	<u>(10,513)</u>
Current year's taxes collected			<u>\$ 470,105</u>	<u>\$ 422,401</u>	<u>\$ 47,704</u>
Current levy collection percentage			<u>92.93%</u>	<u>94.36%</u>	<u>81.94%</u>



MAXTON McDOWELL

*Certified Public Accountant*

379 South Cox Street  
Asheboro, North Carolina 27203  
Phone: (336) 626-9970  
Fax: (336) 626-5981

Member  
American Institute of Certified  
Public Accountants  
North Carolina Association of  
Certified Public Accountants

126 North Second Street  
Albemarle, North Carolina 28001  
Phone: (704) 983-5012  
Fax: (704) 983-5109

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

I 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 Biscoe, North Carolina, as of and for the year ended June 30, 2006, which collectively comprise the Town of Biscoe's basic financial statements, and have issued my report thereon dated September 29, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Biscoe's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Town of Biscoe's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. I noted a reportable condition in segregation of duties among the Town personnel. Duties should be segregated to provide reasonable assurance that transactions are handled appropriately. The recommendation was made to institute alternative controls to compensate for the lack of separation and the Town agrees with this finding. I also noted that expenditures in several departments in the Town were over the budgeted amount. Since the North Carolina General Statutes require a budgeted item for each expenditure, the recommendation was made that the budget be amended to include any additional expenditures that take place during the year, and the Town's management be more involved in the budgetary process. The Town agrees with this finding. I also noted a lack of internal control over departmental expenditures. Certain departmental heads were obligating the Town for payment of expenditures without the prior

To the Honorable Mayor and  
Members of the Board of Commissioners  
Town of Biscoe  
Page 2

approval of the finance officer. Any expenditures should be approved by the finance officer before the Town is obligated for payment. I recommended that all expenditures be approved according to the Town's policy of internal control and the Town agrees with this finding.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider the lack of segregation of duties and expenditures in several departments being over the budgeted amount to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Biscoe's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

  
Certified Public Accountant

September 29, 2006



**MAXTON McDOWELL**

*Certified Public Accountant*

379 South Cox Street  
Asheboro, North Carolina 27203  
Phone: (336) 626-9970  
Fax: (336) 626-5981

Member  
American Institute of Certified  
Public Accountants  
North Carolina Association of  
Certified Public Accountants

126 North Second Street  
Albemarle, North Carolina 28001  
Phone: (704) 983-5012  
Fax: (704) 983-5109

The Mayor and the Commissioners  
Town of Biscoe  
Biscoe, North Carolina

In planning and performing my audit of the financial statements of the Town of Biscoe for the year ended June 30, 2006, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. However, I noted certain matters involving internal control and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control that, in my judgment, could adversely affect the Town of Biscoe's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, I noted the following reportable conditions that I believe to be material weaknesses.

Budget

I noted that expenditures in several departments in the General Fund were over the budgeted amount. Since the N.C. General Statutes require a budgeted item for each expenditure, I recommend that the budget be amended to include any additional expenditures that take place during the year.

The Mayor and the Commissioners  
Town of Biscoe  
Page Two

Segregation of Duties

In an organization such as the Town of Biscoe, North Carolina, with a limited number of personnel for certain functions, there are inherent limitations on the effectiveness of certain controls due to lack of segregation of duties among Town personnel. I believe that insufficient segregation of duties results in a material weakness in accounting and administrative controls. I recommend that the Town of Biscoe, North Carolina study further ways to segregate any duties that can feasibly be divided.

Internal Control Effectiveness

I also noted a lack of internal control over certain departmental expenditures. I noted certain department heads were obligating the Town for payment of expenditures without prior approval of the finance officer. Any expenditures should be approved by the finance officer before the Town is obligated for payment. I recommended that all expenditures be approved according to the Town's policy of internal control.

This report is intended solely for the information and use of the Mayor and the Commissioners, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

September 29, 2006



Certified Public Accountant