

TOWN OF BISCOE, NORTH CAROLINA

FINANCIAL STATEMENTS

June 30, 2007



MAXTON McDOWELL

Certified Public Accountant

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

Brooks Lockhart

Town Manager

Lisa Cagle

Town Clerk

TOWN OF BISCOE, NORTH CAROLINA

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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, and each major fund of the Town of Biscoe, North Carolina, as of and for the year ended June 30, 2007, 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 an opinion 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 opinion.

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, and each major fund of the Town of Biscoe, North Carolina, as of June 30, 2007, 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 October 31, 2007 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.

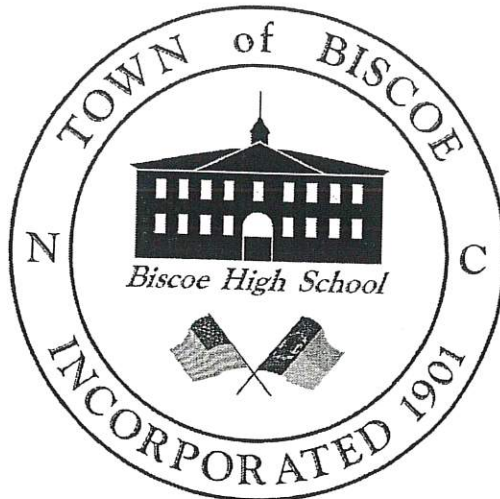
The Mayor and the Board of Commissioners
Town of Biscoe
Page Two

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 12 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. The introductory information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied by me in the audit of basic financial statements and , accordingly, I express no opinion on it.

October 31, 2007


Certified Public Accountant



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Management's Discussion and Analysis

As management of the Town of Biscoe, we offer readers of the Town of Biscoe's financial statements this narrative overview and analysis of the financial activities of the Town of Biscoe (Town) for the fiscal year ended June 30, 2007. 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 \$7,945,940. The assets of the governmental activities exceeded liabilities by \$4,072,299 and the assets of the business-type activities exceeded liabilities by \$3,873,641.
- The government's total net assets increased by \$137,711, primarily due to the continued investment in the town's infrastructure.
- As of the close of the current fiscal year, the Town of Biscoe's governmental funds reported combined ending fund balances of \$2,413,219, a decrease of \$15,278 in comparison with the prior year. Approximately 30 percent of this total amount, or \$733,060, is available for spending at the government's discretion (*unreserved undesignated fund balance*). The Town maintains more than a minimum of 25% of budgeted expenditures in available fund balance for cash flow and emergencies. In addition the town maintains a capital reserve fund with money dedicated to large capital expenditures.
- As of the close of the current fiscal year, the Town's business-type activities reported combined ending net assets of \$3,873,641 an increase of \$180,935. A

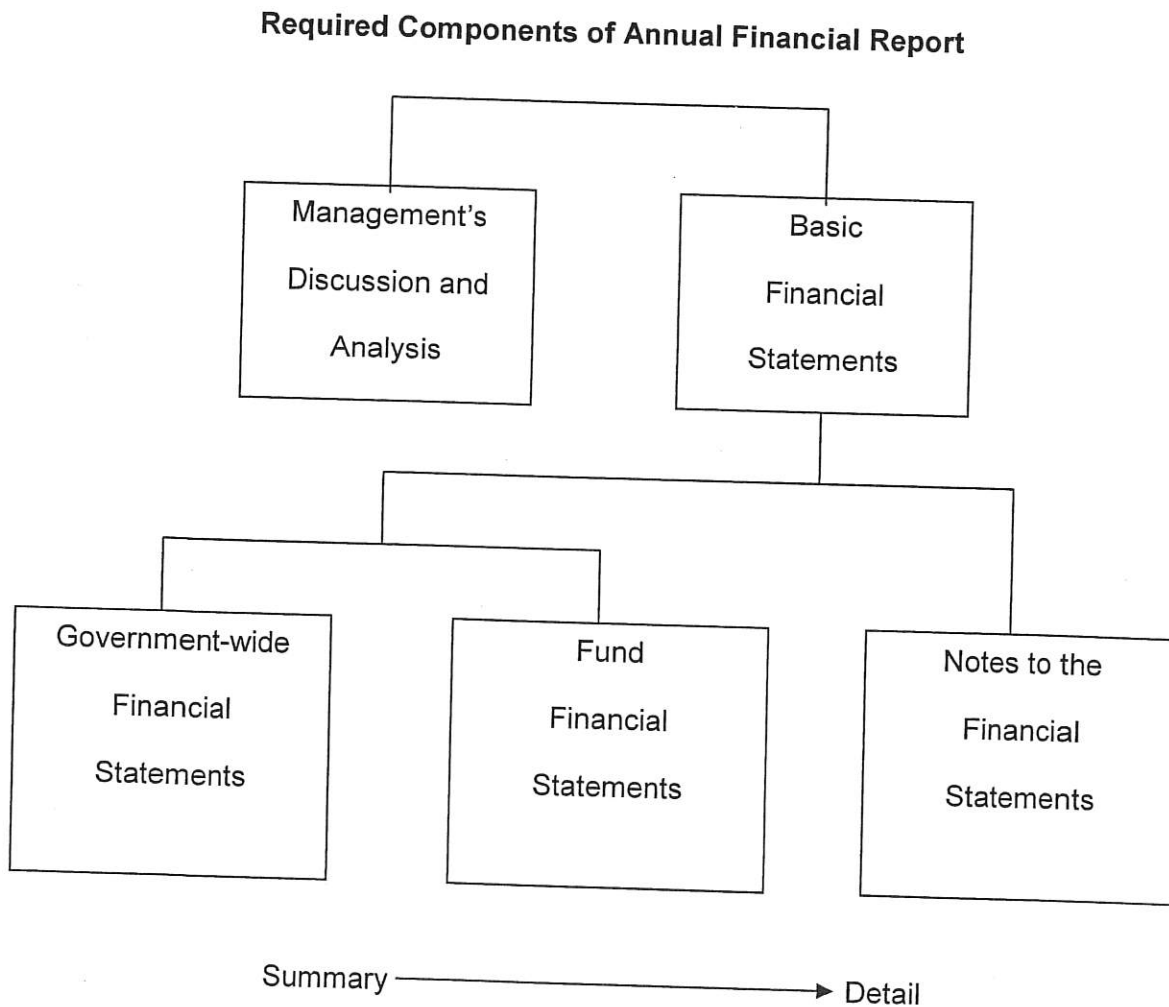
significant portion of this increase is due to continued infrastructure investments fueled by grant awards.

- 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 10) 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 ensure and reflect compliance with finance-related legal requirements, such as the

General Statutes or the Town's budget ordinance. All of the funds of the Town can be 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 25 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	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assests	\$ 2,532,134	\$ 2,535,723	\$ 1,958,220	\$ 1,781,281	\$ 4,490,354	\$ 4,317,004
Capital assets	<u>1,630,803</u>	<u>1,630,803</u>	<u>1,983,292</u>	<u>1,955,970</u>	<u>3,614,095</u>	<u>3,586,773</u>
Total assets	<u>4,162,937</u>	<u>4,166,526</u>	<u>3,941,512</u>	<u>3,737,251</u>	<u>8,104,449</u>	<u>7,903,777</u>
Liabilities:						
Current liabilities	90,638	51,003	67,871	44,545	158,509	95,548
Long-term liabilities	-	-	-	-	-	-
Total liabilities	<u>90,638</u>	<u>51,003</u>	<u>67,871</u>	<u>44,545</u>	<u>158,509</u>	<u>95,548</u>
Net assets:						
Invested in capital assets, net of related debt	1,630,803	1,630,803	1,983,292	1,955,970	3,614,095	3,586,773
Restricted	16,711	14,200	-	-	16,711	14,200
Unrestricted	<u>2,424,785</u>	<u>2,470,520</u>	<u>1,890,349</u>	<u>1,736,736</u>	<u>4,315,134</u>	<u>4,207,256</u>
Total net assets	<u>\$ 4,072,299</u>	<u>\$ 4,115,523</u>	<u>\$ 3,873,641</u>	<u>\$ 3,692,706</u>	<u>\$ 7,945,940</u>	<u>\$ 7,808,229</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 \$7,945,940 as of June 30, 2007. The Town's net assets increased by \$137,711 for the fiscal year ended June 30, 2007. 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 \$4,315,134 (54%) is unrestricted, a small growth (1%) from last year.

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

- Higher than anticipated distributions from both sales tax and utility franchise tax.
- Less reimbursements from awards grants to date than anticipated. Steps to remedy this for future fiscal years have been taken and will be discussed later in the report.
- Greater than expected property and motor vehicle tax revenues; this could be reflective growth in a few key industries in the area.
- Increased internal fiscal controls and the lack of rain during the summer created much higher park revenues (approximately 26% higher than anticipated).

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	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 36,431	\$ 32,450	\$ 580,757	\$ 580,315	\$ 617,188	\$ 612,765
Operating grants and contributions	143,589	72,076	-	-	143,589	72,076
Capital grants and contributions	11,879	135,149	134,058	89,528	145,937	224,677
General revenues:						
Property taxes	569,657	512,754	-	-	-	-
Other taxes	304,503	288,782	1,271	-	569,657	512,754
Unrestricted intergovernmental	206,140	190,876	-	-	305,774	288,782
Other	133,739	129,481	-	-	206,140	190,876
Total revenues	<u>1,405,938</u>	<u>1,361,568</u>	<u>772,117</u>	<u>718,428</u>	<u>2,178,055</u>	<u>2,079,996</u>
Expenses:						
General government	429,651	374,346	-	-	429,651	374,346
Public safety	629,286	488,742	-	-	629,286	488,742
Culture and recreation	90,371	74,143	-	-	90,371	74,143
Transportation	299,854	244,907	-	-	299,854	244,907
Inspections	-	-	-	-	-	-
Environmental	-	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-	-
Water and sewer	-	-	-	-	-	-
Total expenses	<u>1,449,162</u>	<u>1,182,138</u>	<u>591,182</u>	<u>586,274</u>	<u>591,182</u>	<u>586,274</u>
Increase/decrease in net assets before transfers	(43,224)	179,430	180,935	132,154	137,711	311,584
Transfers	-	(5,000)	-	5,000	-	-
Increase in net assets	(43,224)	174,430	180,935	137,430	137,711	311,860
Net assets, July 1, as restated	<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>
Net assets, June 30	<u>\$ 4,072,299</u>	<u>\$ 4,115,523</u>	<u>\$ 3,873,641</u>	<u>\$ 3,692,706</u>	<u>\$ 7,945,940</u>	<u>\$ 7,808,229</u>

Governmental activities – Governmental activities reduced the Town's net assets by \$43,224. Key elements of this decrease, are as follows:

- Property tax collections increased \$56,903 over the prior year.
- Charges for services, which consist mostly of park revenues saw a \$3,981 increase; with increased internal controls we expect much more growth in 2008.
- The impact of positive grants receipts from the Governor's Highway Safety Grant allowed for more expenditure.
- Even with the above 3 increases, they were not increase enough to offset the retirement of assets and the increased expenditure on personnel, which does not add to your net assets.
- Overall, a much larger amount of expenditure was made in the realm of Public Safety than the year prior. These funds went to personnel costs and to some cosmetic improvements to the fire department, which did not significantly raise the net assets.

Business-type activities: Business-type activities increased the Town's assets by \$180, 935. Key elements of this increase are as follows:

- Capital contributions in the amount of \$134,058.
- Liabilities primarily increased due the purchase of components for the telemetry system.

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 \$2,413,219, a decrease of \$15,278 in comparison with the prior year. Of this amount, \$733,060, or 30% 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 \$733,060 while total fund balance reached \$2,413,219. 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. The unreserved fund balance of the General Fund represents 51.17% of total General Fund expenditures, while the remainder is reserved for capital outlay. Overall, the monies in the reserved fund balance represent the years of responsible

fiscal stewardship by the town and their forward vision, saving revenues for large expenditures.

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 less than the budgeted amount by \$2,040. Ad valorem taxes were \$47,946 more than the budgeted amount due to property value adjustments and new developments on the tax rolls. The most significant shortfall was not actually receiving grant fund revenues awarded to the town in the fiscal year, as was anticipated in the budgeting process (\$114,763 less received than anticipated). This has been addressed for future years by adopting a Grant Project Ordinances (*G.S 159-13.2(a)(2)*) as needed for any grant project which has the potential to fall into multiple budget years.

The actual operating expenses for the General Fund were less than the budgeted amount by \$106,347. This was primarily due to the continued efforts of staff to show restraint in purchases and overall responsible fiscal stewardship.

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 \$1,890,349 reflecting a \$153,613 growth from the prior year. 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, 2007, totals \$3,614,095 reflecting a \$27,322 growth (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

- New Police Pursuit Vehicle (Dodge Charger) \$23,117
- New Speed Alert Trailer \$18,300
- Land and Building Improvements \$38,621

Retirements

- No Retirements, just regular book depreciation

Proprietary Funds:

Additions

- Telemetry System Components \$134,058
- Construction of Water/Sewer lines.

Retirements

- No Retirements, just regular book depreciation

Figure 6:

**Town of Biscoe
Capital Assets**

	Governmental	Governmental	Business-type	Business-type	Total	Total
	Activities	Activities	Activities	Activities		
	2007	2006	2007	2006	2007	2006
Land	\$ 605,453	\$ 605,453	\$ -	\$ -	\$ 605,453	\$ 605,453
Buildings	2,070,882	2,032,261	-	-	2,070,882	2,032,261
Equipment & vehicles	1,294,923	1,205,801	-	-	1,294,923	1,205,801
Water distribution systems	-	-	3,996,129	3,851,005	3,996,129	3,851,005
Total Net Assets	3,971,258	3,843,515	3,996,129	3,851,005	7,967,387	7,694,520
Depreciation	(2,340,455)	(2,212,712)	(2,012,837)	(1,895,035)	(4,353,292)	(4,107,747)
Total Capital Assets (net of accumulated depreciation)	\$ 1,630,803	\$ 1,630,803	\$ 1,983,292	\$ 1,955,970	\$ 3,614,095	\$ 3,586,773

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, 2007, the Town of Biscoe does not have any outstanding long-term debt.

Economic Factors and Next Year's Budget and Rates

The following key indicators reflect the economic environment of the Town.

- The Montgomery County unemployment rate in June 2007, as reported by the Employment Security Commission, was 6.5% which was above the State average of 4.5%. This is a marked improvement for the County which was at 7.1% unemployment in August 2006.

- This year has seen the shutdown of yet another major textile employer in the immediate neighboring town.
- The Town is in talks with an industry which would more than double the tax base and create new jobs.
- The County has been identified as a 21st Century County (NC Dept of Commerce) and a Tier 1 community; both give the county and towns a competitive edge in obtaining grants funds.

Next Year's Budget Highlights for the Fiscal Year Ending June 30, 2008

Governmental Activities: The governmental fund's primary revenue resources are property taxes and other taxes and licenses. For the fiscal year ending June 30, 2008, the budgeted revenues remained consistent with prior year's actual amounts. Two major adjustments were made. One greatly reduced the anticipated grant funds in the annual budget. The second was to actually budget the use of fund balance to offset expenditures, where in years past it was used when revenues did not meet their goals.

Budgeted operating expenditures in the General Fund are expected to increase by a fairly large amount (25%), this increase is a reflection of a significant amount of capital outlays and the town coming into a larger match on some of its grants, like the Governor Highway Safety Grant. Below is a list of some of the larger ticket items to be purchased out of the budget ordinance ending June 30, 2008:

- Replacement of all laptops for the Police Cruisers and the purchase of modems to allow all officers the ability to issue E-Citations.
- The purchase of a new Police Pursuit Vehicle.

Business – type Activities: The water and sewer rates in the Town remain the same for the next fiscal year. Budgeted water and sewer revenues have shown an anticipated increase with funds being allocated from the capital reserve for the purchase of a new truck for the department and the creation of a new position in the department as we begin to prepare for the retirement of some of our most experienced staff.

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, 2007

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 2,310,743	\$ 1,701,470	\$ 4,012,213
Taxes receivable (net)	71,059	-	71,059
Accounts receivable (net)	-	83,746	83,746
Inventories	-	34,180	34,180
Internal balances	(2,000)	2,000	-
Due from other governments	152,332	127,196	279,528
Total Current Assets	<u>2,532,134</u>	<u>1,948,592</u>	<u>4,480,726</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	605,453	-	605,453
Other capital assets, net of depreciation	1,025,350	1,983,292	3,008,642
Total Capital Assets	<u>1,630,803</u>	<u>1,983,292</u>	<u>3,614,095</u>
Total Assets	<u>4,162,937</u>	<u>3,941,512</u>	<u>8,104,449</u>
Liabilities:			
Current Liabilities:			
Accounts payable and accrued expenses	47,856	38,481	86,337
Customer deposits	-	9,628	9,628
Current portion of compensated absences	42,782	19,762	62,544
Total Current Liabilities	<u>90,638</u>	<u>67,871</u>	<u>158,509</u>
Total Liabilities	<u>90,638</u>	<u>67,871</u>	<u>158,509</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,630,803	1,983,292	3,614,095
Restricted for:			
Transportation	2,511	-	2,511
Public safety	14,200	-	14,200
Unrestricted	2,424,785	1,890,349	4,315,134
Total Net Assets	<u>\$ 4,072,299</u>	<u>\$ 3,873,641</u>	<u>\$ 7,945,940</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, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
Primary Government:					
General government	\$ 429,651	\$ -	\$ 2,481	\$ -	\$ (427,170)
Public safety	629,286	-	4,083	11,879	(613,324)
Transportation	299,854	-	137,025	-	(162,829)
Cultural and recreational	90,371	36,431	-	-	(53,940)
Total Governmental Activities (See Note 1)	1,449,162	36,431	143,589	11,879	(1,257,263)
Business-type Activities:					
Water and sewer	591,182	580,757	-	134,058	123,633
Total Business-type Activities	591,182	580,757	-	134,058	123,633
Total Primary Government	\$ 2,040,344	\$ 617,188	\$ 143,589	\$ 145,937	(1,133,630)
General Revenues:					
Taxes:					
Property taxes, levied for general purpose					569,657
Other taxes					304,503
Grants and contributions not restricted to specific programs					206,140
Unrestricted investment earnings					111,452
Miscellaneous					22,287
Transfers					2,674
Total General Revenues and Transfers					1,214,039
Change in net assets					(43,224)
Net Assets, Beginning					4,115,523
Net Assets, Ending					\$ 4,072,299
					\$ 3,873,641
					\$ 7,945,940

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

TOWN OF BISCOE, NORTH CAROLINA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	<u>Major Funds</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Capital Reserve</u>	
Assets:			
Cash and cash equivalents	\$ 975,282	\$ 1,335,461	\$ 2,310,743
Receivables, net:			
Taxes	71,059	-	71,059
Due from other governments	<u>152,332</u>	<u>-</u>	<u>152,332</u>
Total Assets	\$ <u>1,198,673</u>	\$ <u>1,335,461</u>	\$ <u>2,534,134</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 47,856	\$ -	\$ 47,856
Deferred revenue	71,059	-	71,059
Due to other funds	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total Liabilities	<u>120,915</u>	<u>-</u>	<u>120,915</u>
Fund Balances:			
Reserved for:			
State statute	152,332	-	152,332
Streets-Powell bill	2,511	-	2,511
Equitable sharing	14,201	-	14,201
Unreserved:			
Designated for subsequent year's expenditures	175,654	59,133	234,787
Designated for capital projects	-	1,276,328	1,276,328
Undesignated	<u>733,060</u>	<u>-</u>	<u>733,060</u>
Total Fund Balances	<u>1,077,758</u>	<u>1,335,461</u>	2,413,219
Total Liabilities and Fund Balances	\$ <u>1,198,673</u>	\$ <u>1,335,461</u>	

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 \$ 3,971,258

Accumulated depreciation (2,340,455)

1,630,803

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

71,059

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

(42,782)

Net assets of governmental activities

\$ 4,072,299

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, 2007

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Reserve</u>	
Revenues:			
Ad valorem taxes	\$ 580,921	\$ -	\$ 580,921
Other taxes and licenses	304,503	-	304,503
Unrestricted intergovernmental	206,140	-	206,140
Restricted intergovernmental	152,987	-	152,987
Permits and fees	600	-	600
Sales and services	36,431	-	36,431
Investment earnings	41,240	70,212	111,452
Miscellaneous	24,168	-	24,168
Total Revenues	<u>1,346,990</u>	<u>70,212</u>	<u>1,417,202</u>
Expenditures:			
Current:			
General government	400,062	-	400,062
Public safety	657,811	-	657,811
Transportation - streets	291,858	-	291,858
Cultural and recreational	82,749	-	82,749
Total Expenditures	<u>1,432,480</u>	<u>-</u>	<u>1,432,480</u>
Revenues Over (Under) Expenditures	<u>(85,490)</u>	<u>70,212</u>	<u>(15,278)</u>
Other Financing Sources (Uses):			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Sale of capital asset	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>(85,490)</u>	<u>70,212</u>	<u>(15,278)</u>
Fund Balance, Beginning	<u>1,163,248</u>	<u>1,265,249</u>	<u>2,428,497</u>
Fund Balance, Ending	<u>\$ 1,077,758</u>	<u>\$ 1,335,461</u>	<u>\$ 2,413,219</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, 2007

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

Net changes in fund balances - total governmental funds		\$	(15,278)
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		\$	127,743
Depreciation expense for governmental assets			(127,743)
Asset disposal			<u>-</u>
			-
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			(11,264)
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>(16,682)</u>
Total changes in net assets of governmental activities		\$	<u><u>(43,224)</u></u>

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, 2007**

	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)
Revenues:								
Ad valorem taxes	\$ 532,000	\$ 532,975	\$ 580,921	\$ 47,946	\$ -	\$ -	\$ -	\$ -
Other taxes and licenses	282,000	282,000	304,503	22,503	-	-	-	-
Unrestricted intergovernmental	194,700	194,700	206,140	11,440	-	-	-	-
Restricted intergovernmental	267,750	267,750	152,987	(114,763)	-	-	-	-
Permits and fees	500	500	600	100	-	-	-	-
Sales and services	26,000	27,000	36,431	9,431	-	-	-	-
Investment earnings	26,000	26,000	41,240	15,240	-	-	-	-
Miscellaneous	3,500	14,025	24,168	10,143	40,000	40,000	70,212	30,212
Total Revenues	1,332,450	1,344,950	1,346,990	2,040	40,000	40,000	70,212	30,212
Expenditures:								
Current:								
General government	371,126	403,636	400,062	3,574	-	-	-	-
Public safety	732,687	732,687	657,811	74,876	-	-	-	-
Transportation - streets	315,644	312,554	291,858	20,696	-	-	-	-
Cultural and recreational	76,110	86,860	82,749	4,111	-	-	-	-
Contingency	-	3,090	-	3,090	-	-	-	-
Total Expenditures	1,495,567	1,538,827	1,432,480	106,347	-	-	-	-
Revenues Over (Under) Expenditures	(163,117)	(193,877)	(85,490)	108,387	40,000	40,000	70,212	30,212
Other Financing Sources (Uses):								
Transfer to other funds	55,000	55,000	-	(55,000)	(65,000)	(65,000)	-	65,000
Sale of capital assets	20,000	20,000	-	(20,000)	-	-	-	-
Total Other Financing Sources (Uses)	75,000	75,000	-	(75,000)	(65,000)	(65,000)	-	65,000
Fund Balance Appropriated	88,117	118,877	-	(118,877)	25,000	25,000	-	(25,000)
Net Change in Fund Balance	\$ -	\$ -	(85,490)	(85,490)	\$ -	\$ -	70,212	\$ 70,212
Fund Balance, Beginning			1,163,248				1,265,249	
Fund Balance, Ending			\$ 1,077,758				\$ 1,335,461	

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, 2007

	<u>Major Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 1,701,470	\$ 1,701,470
Accounts receivable (net)	83,746	83,746
Due from other funds	2,000	2,000
Due from other governments	127,196	127,196
Inventories	34,180	34,180
Total Current Assets	<u>1,948,592</u>	<u>1,948,592</u>
Noncurrent Assets:		
Restricted assets:		
Cash and cash equivalents	<u>9,628</u>	<u>9,628</u>
Capital assets:		
Other capital assets, net of depreciation	<u>1,983,292</u>	<u>1,983,292</u>
Capital assets (net)	<u>1,983,292</u>	<u>1,983,292</u>
Total Noncurrent Assets	<u>1,992,920</u>	<u>1,992,920</u>
Total Assets	<u>\$ 3,941,512</u>	<u>\$ 3,941,512</u>
Liabilities:		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 38,481	\$ 38,481
Customer deposits	9,628	9,628
Current portion of compensated absences	<u>19,762</u>	<u>19,762</u>
Total Current Liabilities	<u>67,871</u>	<u>67,871</u>
Total Liabilities	<u>67,871</u>	<u>67,871</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,983,292	1,983,292
Unrestricted	<u>1,890,349</u>	<u>1,890,349</u>
Total Net Assets	<u>\$ 3,873,641</u>	<u>\$ 3,873,641</u>

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, 2007

	<u>Major Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
Operating Revenues:		
Charges for services	\$ 575,796	\$ 575,796
Water and sewer taps	3,900	3,900
Other operating revenues	1,061	1,061
	<u>580,757</u>	<u>580,757</u>
Total Operating Revenues		
Operating Expenses:		
Water and sewer operations	473,380	473,380
Depreciation	117,802	117,802
	<u>591,182</u>	<u>591,182</u>
Total Operating Expenses		
Operating Income (Loss)	<u>(10,425)</u>	<u>(10,425)</u>
Nonoperating Revenues (Expenses):		
Investment earnings	53,357	53,357
Tax refunds	1,271	1,271
Miscellaneous	2,674	2,674
	<u>57,302</u>	<u>57,302</u>
Total Nonoperating Revenue (Expenses)		
Income (Loss) before contributions and transfers	46,877	46,877
Capital contributions	134,058	134,058
Transfer from other funds	-	-
	<u>180,935</u>	<u>180,935</u>
Change in Net Assets		
Net Assets, Beginning	<u>3,692,706</u>	<u>3,692,706</u>
Net Assets, Ending	<u>\$ 3,873,641</u>	<u>\$ 3,873,641</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, 2007

	<u>Major Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 581,524	\$ 581,524
Cash paid for goods and services	(378,557)	(378,557)
Cash paid to or on behalf of employees for services	(112,839)	(112,839)
	<u>90,128</u>	<u>90,128</u>
Net Cash Provided (Used) by Operating Activities		
Cash Flows From Noncapital Financing Activities:		
Transfers from other funds	-	-
Due to (from) other funds	-	-
	<u>-</u>	<u>-</u>
Net Cash Flows From Noncapital Financing Activities		
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(145,124)	(145,124)
Capital contributions - State Grant	134,058	134,058
Tax refunds	1,271	1,271
Miscellaneous	2,674	2,674
	<u>(7,121)</u>	<u>(7,121)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities		
Cash Flows from Investing Activities:		
Interest and dividends	53,357	53,357
	<u>53,357</u>	<u>53,357</u>
Net Increase (Decrease) in Cash and Cash Equivalents	136,364	136,364
Balance, Beginning of the Year	<u>1,574,734</u>	<u>1,574,734</u>
Balance, End of the Year	<u>\$ 1,711,098</u>	<u>\$ 1,711,098</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, 2007

	<u>Major Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ <u>(10,425)</u>	\$ <u>(10,425)</u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	117,802	117,802
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(492)	(492)
(Increase) decrease from other governments	(37,668)	(37,668)
(Increase) decrease in inventory	(2,414)	(2,414)
Increase (decrease) in accounts payable and accrued liabilities	23,325	23,325
Increase (decrease) in customer deposits	<u>-</u>	<u>-</u>
Total Adjustments	<u>100,553</u>	<u>100,553</u>
Net Cash Provided by Operating Activities	<u>\$ 90,128</u>	<u>\$ 90,128</u>

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, 2007

	Pension Trust Fund	
	Special Separation Allowance Fund	Total
Assets:		
Cash and cash equivalents	\$ 1,587	\$ 1,587
Accrued interest	70,241	70,241
Total Assets	\$ 71,828	\$ 71,828
Net Assets:		
Reserved for employees' pension benefits	\$ 71,828	\$ 71,828
Total Net Assets	\$ 71,828	\$ 71,828

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, 2007

	<u>Pension Trust Fund</u>	
	<u>Special Separation Allowance Fund</u>	<u>Total</u>
Additions:		
Investment Earnings	\$ 4,016	\$ 4,016
Municipal Contributions	4,938	4,938
Total Additions	<u>8,954</u>	<u>8,954</u>
Change in Net Assets	8,954	8,954
Total Net Assets, Beginning	<u>62,874</u>	<u>62,874</u>
Total Net Assets, Ending	<u>\$ 71,828</u>	<u>\$ 71,828</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, 2007

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, 2007, 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)

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable 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 2006 through February 2007 apply to the fiscal year ended June 30, 2007. 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, 2007, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the

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)

staggered registration. Originally, annually registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the annual into the staggered registration, the initial 2007 registration renewals will vary from 7 to 18 months after December 31, 2006. 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 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. Amendments were made during the year to the original budget.

TOWN OF BISCOE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1 - Summary of Significant Accounting Policies (Continued)

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).

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, 2006. 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.

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)

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, and 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 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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
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

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)

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 an unlimited accumulation 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.

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.

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 (Concluded)

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 2007-2008 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.

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, 2007, the General Fund showed expenditures over budget in two 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.

TOWN OF BISCOE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, the Town's deposits had a carrying amount of \$3,951,482 and a bank balance of \$4,082,318. Of the bank balance, \$100,000 was covered by federal depository insurance, and \$3,982,318 was covered by collateral held by authorized escrow agents in the name of the Town. At June 30, 2007, the Town's petty cash fund totaled \$1,280.

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	6/30/2007
General Fund	
Taxes receivable	\$ 2,431
Enterprise Fund:	
Accounts receivable	6,000
Total	<u>\$ 8,431</u>

Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2007, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 605,453	\$ -	\$ -	\$ 605,453
Total Capital Assets Not Being Depreciated	<u>605,453</u>	<u>-</u>	<u>-</u>	<u>605,453</u>
Capital Assets Being Depreciated:				
Buildings	1,920,676	38,621	-	1,959,297
Infrastructure	111,585	-	-	111,585
Equipment	463,349	52,614	-	515,963
Vehicles and motorized equipment	742,452	36,508	-	778,960
Total Capital Assets Being Depreciated	<u>3,238,062</u>	<u>127,743</u>	<u>-</u>	<u>3,365,805</u>
Less Accumulated Depreciation For:				
Buildings	1,350,812	52,407	-	1,403,219
Infrastructure	465	5,579	-	6,044
Equipment	383,368	27,049	-	410,417
Vehicles and motorized equipment	478,067	42,708	-	520,775
Total Accumulated Depreciation	<u>2,212,712</u>	<u>\$ 127,743</u>	<u>\$ -</u>	<u>2,340,455</u>
Total Capital Assets Being Depreciated, Net	<u>1,025,350</u>			<u>1,025,350</u>
Governmental Activity Capital Assets, Net	<u>\$ 1,630,803</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	\$ 49,330
Public safety	53,575
Transportation	17,217
Cultural and recreational	<u>7,621</u>
Total Depreciation Expense	\$ <u>127,743</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-Type Activities:				
Water and Sewer Fund				
Capital Assets Being Depreciated:				
Plant and distribution systems	\$ 3,258,830	\$ -	\$ -	\$ 3,258,830
Furniture and maintenance equipment	498,466	145,124	-	643,590
Vehicles	<u>93,709</u>	<u>-</u>	<u>-</u>	<u>93,709</u>
Total Capital Assets Being Depreciated	<u>3,851,005</u>	<u>145,124</u>	<u>-</u>	<u>3,996,129</u>
Less Accumulated Depreciation For:				
Plant and distribution systems	1,580,531	80,801	-	1,661,332
Furniture and maintenance equipment	220,796	37,001	-	257,797
Vehicles	<u>93,708</u>	<u>-</u>	<u>-</u>	<u>93,708</u>
Total Accumulated Depreciation	<u>1,895,035</u>	\$ <u>117,802</u>	\$ <u>-</u>	<u>2,012,837</u>
Total Capital Assets Being Depreciated, Net	<u>1,955,970</u>			<u>1,983,292</u>
Water and Sewer Fund Capital Assets, Net	<u>1,955,970</u>			<u>1,983,292</u>
Business-Type Activities Capital Assets, Net	\$ <u>1,955,970</u>			\$ <u>1,983,292</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, 2007, 2006, and 2005 were \$54,966, \$49,550, and \$48,584, 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, 2006, 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 \$4,938, or 2.10% 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, 2006 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 4.5-12.3% 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	\$	4,938
Interest on net pension obligation		202
Adjustment to annual required contribution		(164)
Annual pension cost		4,976
Employer contributions made		4,938
Increase (decrease) in net pension obligation		38
Net pension obligation beginning of fiscal year		2,784
Net pension obligation end of fiscal year	\$	2,822

For Year Ended June 30	3 Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 5,308	99.16%	\$ 2,743
2006	5,792	99.28%	2,784
2007	4,976	99.23%	2,822

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, 2007 were \$29,855, which consisted of \$20,430 from the Town, \$9,425 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.

Other Employment Benefit

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. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

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, less penalties	71,059
Total	\$ 71,059

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, 2007, the Town had a legal debt margin of approximately \$8,238,735.

TOWN OF BISCOE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Note 3 - Detail Notes on All Funds (Concluded)

Interfund Balances and Activity

Balances due to/from other funds at June 30, 2007, consist of the following:

Due to the Water/Sewer Fund for water and sewer expenses from:

General Fund	\$ <u>2,000</u>
--------------	-----------------

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, 2007. 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, 2007, 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>
12/31/00	\$ 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%
12/31/06	63,548	80,961	17,413	78.49%	231,852	7.51%

TOWN OF BISCOE, NORTH CAROLINA

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

<u>Year ended June 30</u>	<u>Annual required contribution</u>	<u>Percentage 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%
2007	4,976	99.23%

* 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	12/31/2006
Actuarial cost method	Projected unit credit
Remaining method	Level percent of pay closed
Remaining amortization period	24 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, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad Valorem Taxes:			
Taxes	\$	\$ 576,819	\$
Penalties and interest		4,102	
Total	<u>532,975</u>	<u>580,921</u>	<u>47,946</u>
Other Taxes and Licenses:			
ABC mixed beverage		-	
Local option sales tax		299,290	
Cablevision franchise fee		5,054	
Other taxes		159	
Total	<u>282,000</u>	<u>304,503</u>	<u>22,503</u>
Unrestricted Intergovernmental:			
Franchise tax		182,194	
Beer and wine taxes		7,917	
Tax refunds		16,029	
Total	<u>194,700</u>	<u>206,140</u>	<u>11,440</u>
Restricted Intergovernmental:			
Powell Bill allocation		59,679	
Grant funds		93,308	
Total	<u>267,750</u>	<u>152,987</u>	<u>(114,763)</u>
Permits and Fees	<u>500</u>	<u>600</u>	<u>100</u>
Sales and Services:			
Cemetery lot sales		4,460	
Concession receipts		31,971	
Total	<u>27,000</u>	<u>36,431</u>	<u>9,431</u>
Investment Earnings	<u>26,000</u>	<u>41,240</u>	<u>15,240</u>
Miscellaneous:			
Contributions		3,035	
Drug seizures		-	
Other		21,133	
Total	<u>14,025</u>	<u>24,168</u>	<u>10,143</u>
Total Revenues	\$ 1,344,950	\$ 1,346,990	\$ 2,040

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, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General Government:			
Salaries and employee benefits	\$	\$ 161,994	\$
Other operating expenditures		139,776	
Total	<u>305,186</u>	<u>301,770</u>	<u>3,416</u>
Legal and professional services:			
Other operating expenditures	<u>24,250</u>	<u>24,128</u>	<u>122</u>
Public buildings and grounds:			
Other operating expenditures		58,157	
Capital outlay		16,007	
Total	<u>74,200</u>	<u>74,164</u>	<u>36</u>
Total General Government	<u>403,636</u>	<u>400,062</u>	<u>3,574</u>
Public Safety:			
Police Department:			
Salaries and employee benefits		410,784	
Other operating expenditures		71,063	
Capital outlay		85,908	
Total	<u>654,407</u>	<u>567,755</u>	<u>86,652</u>
Fire Department:			
Salaries and employee benefits		3,032	
Other operating expenditures		23,221	
Capital outlay		63,803	
Total	<u>78,280</u>	<u>90,056</u>	<u>(11,776)</u>
Total Public Safety	<u>732,687</u>	<u>657,811</u>	<u>74,876</u>
Transportation:			
Streets:			
Salaries and employee benefits		101,577	
Other operating expenditures		150,375	
Capital outlay		9,220	
Total	<u>\$ 253,894</u>	<u>\$ 261,172</u>	<u>\$ (7,278)</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, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures (Concluded):			
Transportation			
Streets - Powell Bill:			
Salaries and employee benefits	\$	\$ -	\$
Other operating expenditures		30,686	
Capital outlay		-	
Total	<u>58,660</u>	<u>30,686</u>	<u>27,974</u>
Total Transportation - Streets	<u>312,554</u>	<u>291,858</u>	<u>20,696</u>
Cultural and Recreational:			
Recreation department:			
Salaries and benefits		37,003	
Other operating expenditures		40,023	
Capital outlay		5,723	
Total Cultural and Recreational	<u>86,860</u>	<u>82,749</u>	<u>4,111</u>
Contingency:	<u>3,090</u>	<u>-</u>	<u>3,090</u>
Total Expenditures	<u>1,538,827</u>	<u>1,432,480</u>	<u>106,347</u>
Revenues Over (Under) Expenditures	<u>(193,877)</u>	<u>(85,490)</u>	<u>108,387</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	20,000	-	(20,000)
Transfer/Capital Reserve	<u>55,000</u>	<u>-</u>	<u>(55,000)</u>
Total	<u>75,000</u>	<u>-</u>	<u>(75,000)</u>
Fund Balance Appropriated	118,877	-	(118,877)
Net Change in Fund Balance	\$ <u><u>-</u></u>	(85,490) \$	<u><u>(85,490)</u></u>
Fund Balance, Beginning		<u>1,163,248</u>	
Fund Balance, Ending		\$ <u><u>1,077,758</u></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, 2007

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Investment earnings	\$ 40,000	\$ 60,539	\$ 70,212	\$ 130,751	\$ 90,751
Total Revenues	<u>40,000</u>	<u>60,539</u>	<u>70,212</u>	<u>130,751</u>	<u>90,751</u>
Expenditures:					
Capital outlay	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues Over (Under) Expenditures	<u>40,000</u>	<u>60,539</u>	<u>70,212</u>	<u>130,751</u>	<u>90,751</u>
Other Financing Sources (Uses):					
Transfers to other funds	(65,000)	(145,960)	-	(145,960)	(80,960)
Total Other Financing Sources (Uses):	<u>(65,000)</u>	<u>(145,960)</u>	<u>-</u>	<u>(145,960)</u>	<u>(80,960)</u>
Fund Balance Appropriated	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>
Net Change in Fund Balance	<u>-</u>	<u>(85,421)</u>	<u>70,212</u>	<u>(15,209)</u>	<u>(15,209)</u>
Fund Balance, Beginning			<u>1,265,249</u>		
Fund Balance, Ending				<u>\$ 1,335,461</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, 2007

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
CWMTF Grant	480,000	89,528	134,058	223,586	(256,414)
STAG Grant	66,000	-	-	-	(66,000)
Total Revenues	546,000	89,528	134,058	223,586	(322,414)
Expenditures:					
Lagoon	250,000	3,912	6,387	10,299	239,701
Pump Station	230,000	1,098	12,813	13,911	216,089
Dechloration	90,000	84,518	-	84,518	5,482
Telemetry	27,000	-	114,858	114,858	(87,858)
Contingency	3,000	-	-	-	3,000
Total Expenditures	600,000	89,528	134,058	223,586	376,414
Revenues Over (Under) Expenditures	(54,000)	-	-	-	54,000
Other Financing Sources (Uses):					
Transfers from other funds:	54,000	-	-	-	(54,000)
Total Other Financing Sources (Uses):	54,000	-	-	-	(54,000)
Fund Balance Appropriated	-	-	-	-	-
Net Change in Fund Balance	-	-	-	-	-
Fund Balance, Beginning	-	-	-	-	-
Fund Balance, Ending	-	-	-	-	-

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, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating Revenues:			
Charges for services	\$	\$ 580,316	\$
Total Operating Revenues	<u>615,000</u>	<u>580,316</u>	<u>(34,684)</u>
Nonoperating Revenues:			
Interest earned on investments		53,357	
Tax refunds		1,271	
Miscellaneous		3,116	
Total Nonoperating Revenues	<u>64,000</u>	<u>57,744</u>	<u>(6,256)</u>
Total Revenues	<u>679,000</u>	<u>638,060</u>	<u>(40,940)</u>
Expenditures:			
Water and Sewer Operations:			
Salaries and employee benefits		120,345	
Other operating expenditures		139,723	
Purchases for resale		185,524	
Capital outlay		41,268	
Total Water and Sewer Operations	<u>756,777</u>	<u>486,860</u>	<u>269,917</u>
Total Expenditures	<u>756,777</u>	<u>486,860</u>	<u>269,917</u>
Revenues Over (Under) Expenditures	<u>(77,777)</u>	<u>151,200</u>	<u>228,977</u>
Other Financing Sources (Uses):			
Transfer from Capital Reserve Fund	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Fund Balance Appropriated	<u>67,777</u>	<u>-</u>	<u>(67,777)</u>
Revenues and Other Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ -</u>	<u>151,200</u>	<u>\$ 151,200</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Revenues and Other Sources Over (Under) Expenditures and Other Financing Uses		151,200	
Reconciling Items:			
Depreciation		(117,802)	
Capital outlay		11,066	
Change in inventory		2,413	
Grant contributions		134,058	
Change in Net Assets		<u>\$ 180,935</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, 2007

	Balance June 30, 2006	Additions and Transfers in	Disposals and Transfers Out	Balance June 30, 2007
General Government	\$ 2,454,291	\$ 52,012	\$ -	\$ 2,506,303
Public Safety	897,102	66,512	-	963,614
Street and Sanitation	291,504	9,220	-	300,724
Cultural and Recreational	<u>200,618</u>	<u>-</u>	<u>-</u>	<u>200,618</u>
Total General Fixed Assets	\$ <u>3,843,515</u>	\$ <u>127,744</u>	\$ <u>-</u>	\$ <u>3,971,259</u>

TOWN OF BISCOE, NORTH CAROLINASCHEDULE OF AD VALOREM TAXES RECEIVABLE

June 30, 2007

<u>Fiscal Year</u>	Uncollected Balance June 30, 2006	Additions	Collections and Credits	Uncollected Balance June 30, 2007
2006-2007	\$ -	\$ 566,923	\$ 543,456	\$ 23,467
2005-2006	35,741	138	25,376	10,503
2004-2005	13,059	-	7,631	5,428
2003-2004	8,101	-	308	7,793
2002-2003	6,062	-	180	5,882
2001-2002	3,063	-	113	2,950
2000-2001	12,686	-	57	12,629
1999-2000	1,377	-	75	1,302
1998-1999	1,765	-	40	1,725
1997-1998	1,061	-	19	1,042
1996-1997	774	-	5	769
	<u>\$ 83,689</u>	<u>\$ 567,061</u>	<u>\$ 577,260</u>	<u>73,490</u>
Less: Allowance for uncollectible accounts: General Fund				<u>2,431</u>
Ad valorem taxes receivable - net				<u>\$ 71,059</u>
Reconciliation with Revenues: Ad valorem taxes - General Fund				\$ 580,921
Reconciling items:				
Interest collected				(4,102)
Discounts allowed				441
Taxes written off				<u>-</u>
Total Collections and Credits				<u>\$ 577,260</u>

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

For the Fiscal Year Ended June 30, 2007

	Town-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 95,613,636	\$ 0.55	\$ 525,875	\$ 466,849	\$ 59,026
Registered motor vehicles taxed at prior year's rate	645,637	0.55	3,551	-	3,551
Penalties	-		393	393	-
Total Original Levy	<u>96,259,273</u>		<u>529,819</u>	<u>467,242</u>	<u>62,577</u>
Discoveries:					
Current year taxes	6,937,818	0.55	38,158	38,158	-
Penalties	-		117	117	-
Total Discoveries	<u>6,937,818</u>		<u>38,275</u>	<u>38,275</u>	<u>-</u>
Abatements:					
Taxed at current year's rate	(202,182)	0.55	(1,112)	(788)	(324)
Taxed at prior year's rate	(10,727)	0.55	(59)	-	(59)
Total Abatements	<u>(212,909)</u>		<u>(1,171)</u>	<u>(788)</u>	<u>(383)</u>
Total Property Valuation	<u>\$ 102,984,182</u>				
Net levy			566,923	504,729	62,194
Uncollected taxes at June 30, 2007			(23,467)	(10,817)	(12,650)
Current year's taxes collected			\$ <u>543,456</u>	\$ <u>493,912</u>	\$ <u>49,544</u>
Current levy collection percentage			<u>95.86%</u>	<u>97.86%</u>	<u>79.66%</u>



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

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 of the Town of Biscoe, North Carolina, as of and for the year ended June 30, 2007, which collectively comprise the Town of Biscoe's basic financial statements, and have issued my report thereon dated October 31, 2007. 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Biscoe's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's
To the Honorable Mayor and

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

financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. I consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

I noted a significant deficiency in segregation of duties among the Town personnel. Duties should be segregated to provide reasonable assurance that transactions are handled appropriately. I recommend the Town institute alternative controls to compensate for the lack of segregation of duties. The Town agrees with this finding and will research to determine if any duties can be further divided. I also noted that expenditures in departments in the Town were over the budgeted amount. Since the North Carolina General Statutes require a budgeted item for each expenditure, the recommendation is 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. Management and the Board will more closely review the budget reports to ensure compliance in future years. I also noted that the Town does not have someone that possesses the necessary accounting expertise to prevent, detect, and correct a potential misstatement in the financial statements or notes. My recommendation is that the Town review the cost/benefit analysis of installing adequate controls to take responsibility for the financial statements. The Town agrees to review the cost/benefit effect of installing adequate controls over the responsibility for the financial statements.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider the lack of segregation of duties, expenditures in departments being over the budgeted amount, and the lack of expertise in financial accounting and reporting to be material weaknesses.

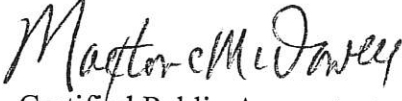
Compliance and Other Matters

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.

To the Honorable Mayor and
Members of the Board of Commissioners
Town of Biscoe
Page 3

The Town's response to the findings identified in my audit is described above. I did not audit the Town's response and, accordingly, I express no opinion on it.

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

October 31, 2007