

TOWN OF BISCOE, NORTH CAROLINA

FINANCIAL STATEMENTS

June 30, 2010

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

Laura Morton

Town Clerk

TOWN OF BISCOE, NORTH CAROLINA

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Biscoe, North Carolina, as of and for the year ended June 30, 2010, 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, each major fund, and the aggregate remaining fund information of the Town of Biscoe, North Carolina, as of June 30, 2010, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund and the Capital Reserve 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 November 23, 2010 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. The purpose of the report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an

To the Honorable Mayor
and Members of the Board of Commissioners
Town of Biscoe
Biscoe, North Carolina
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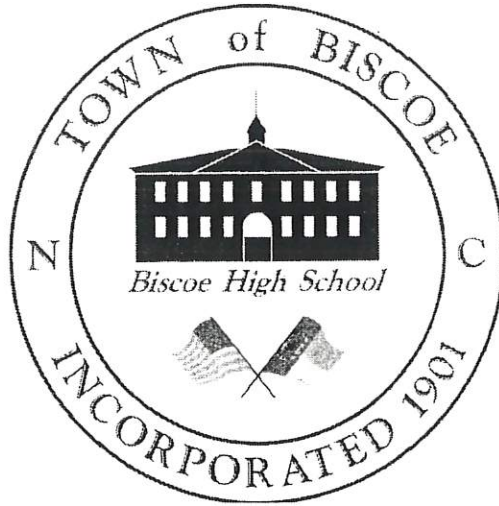
opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions on pages 3 through 13 and 45 and 46 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 an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Biscoe, North Carolina. The individual fund statements, budgetary schedules, and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

November 23, 2010


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, 2010. 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 \$8,022,539. The assets of the governmental activities exceeded liabilities by \$4,015,979 and the assets of the business-type activities exceeded liabilities by \$4,006,560.
- The government's total net assets decreased by \$216,562, due to depreciation while limiting investment in new capital assets in anticipation of lower than normal revenues.
- As of the close of the current fiscal year, the Town of Biscoe's governmental funds reported combined ending fund balances of \$2,504,663, a decrease of \$31,175 in comparison with the prior year. Approximately 33 percent of this total amount, or \$814,641, 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.

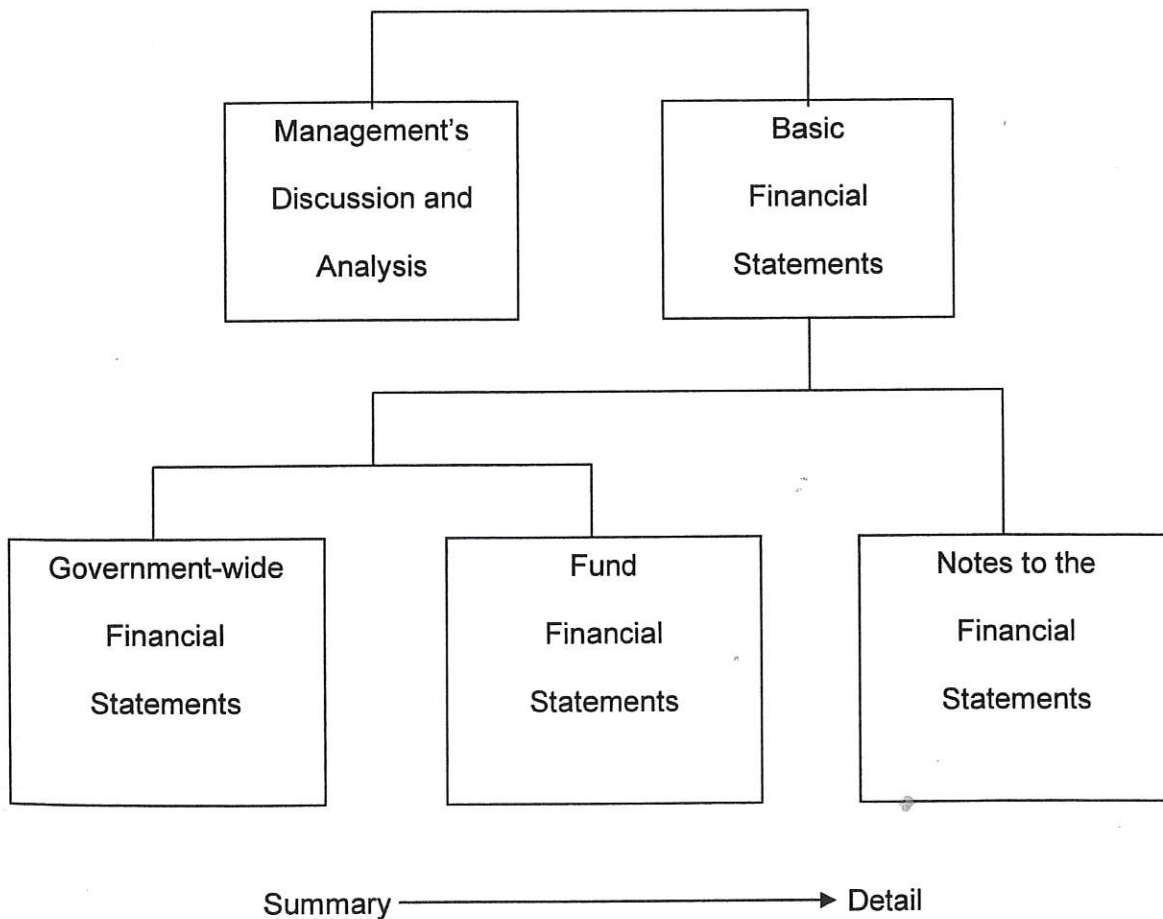
- As of the close of the current fiscal year, the Town's business-type activities reported combined ending net assets of \$4,006,560 a decrease of \$114,595.

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:

Required Components of Annual Financial Report



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 26 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 45 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	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	\$ 2,641,718	\$ 2,666,171	\$ 1,685,571	\$ 1,680,440	\$ 4,327,289	\$ 4,346,611
Capital assets	1,462,684	1,527,378	2,383,911	2,506,144	3,846,595	4,033,522
Total assets	<u>4,104,402</u>	<u>4,193,549</u>	<u>4,069,482</u>	<u>4,186,584</u>	<u>8,173,884</u>	<u>8,380,133</u>
Liabilities:						
Current liabilities	88,423	79,659	62,922	65,429	151,345	145,088
Long-term liabilities	-	-	-	-	-	-
Total liabilities	<u>88,423</u>	<u>79,659</u>	<u>62,922</u>	<u>65,429</u>	<u>151,345</u>	<u>145,088</u>
Net assets:						
Invested in capital assets, net of related debt	1,462,684	1,527,378	2,383,911	2,506,144	3,846,595	4,033,522
Restricted	84,894	80,509	-	-	84,894	80,509
Unrestricted	2,468,401	2,506,003	1,622,649	1,615,011	4,091,050	4,121,014
Total net assets	<u>\$ 4,015,979</u>	<u>\$ 4,113,890</u>	<u>\$ 4,006,560</u>	<u>\$ 4,121,155</u>	<u>\$ 8,022,539</u>	<u>\$ 8,235,045</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 \$8,022,539 as of June 30, 2010. The Town's net assets decreased by \$216,562 for the fiscal year ended June 30, 2010. 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 \$4,091,050 (51%) is unrestricted, the same proportion as last fiscal year.

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

- To maintain services while facing reduction in revenues as a result of the recession of the economy, the Board took the following two actions. First, the Board elected to freeze capital outlay for the fiscal year. This freeze led to no new capital outlay offsetting depreciation of aging capital. Second, the Board appropriated the use of unrestricted fund balance; this use resulted in a minimal reduction of unrestricted funds.
- Many states collected local revenues like the Sales Tax and Utility Franchise Tax, experienced lower collections than previous fiscal years.
- This fiscal year saw the return of consumption from the previous decline caused by the 19% rate increase from the County Water System in Fall 2008. Our water and sewer consumption ultimately dropped 20% before it climbed to normal levels in summer 2010. During this time the County was proposing another rate increase ranging from 75% to 30% which ultimately settled on 40%. This new rate will begin on July 1, 2010; this rate increase has forced the Town to reevaluate its water and sewer rate schedule. We anticipate a decline in consumption, but we anticipate higher revenue next fiscal year to offset increased costs from the County.

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	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 49,223	\$ 49,373	\$ 618,681	\$ 600,594	\$ 667,904	\$ 649,967
Operating grants and contributions	123,214	332,679	-	-	123,214	332,679
Capital grants and contributions	-	-	-	124,360	-	124,360
General revenues:						
Property taxes	623,832	653,311	-	-	623,832	653,311
Other taxes	267,849	271,500	3,282	1,153	271,131	272,653
Unrestricted intergovernmental	190,838	187,572	-	-	190,838	187,572
Other	91,635	165,418	14,448	9,832	106,083	175,250
Total revenues	<u>1,346,591</u>	<u>1,659,853</u>	<u>636,411</u>	<u>735,939</u>	<u>1,983,002</u>	<u>2,395,792</u>
Expenses:						
General government	455,746	678,971	-	-	455,746	678,971
Public safety	700,872	622,002	-	-	700,872	622,002
Culture and recreation	87,746	103,812	-	-	87,746	103,812
Transportation	204,194	190,529	-	-	204,194	190,529
Inspections	-	-	-	-	-	-
Environmental	-	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-	-
Water and sewer	-	-	751,006	829,864	751,006	829,864
Total expenses	<u>1,448,558</u>	<u>1,595,314</u>	<u>751,006</u>	<u>829,864</u>	<u>2,199,564</u>	<u>2,425,178</u>
Increase in net assets before transfers	(101,967)	64,539	(114,595)	(93,925)	(216,562)	(29,386)
Transfers	-	(24,133)	-	116,232	-	92,099
Increase in net assets Net assets, July 1	<u>(101,967)</u>	<u>40,406</u>	<u>(114,595)</u>	<u>22,307</u>	<u>(216,562)</u>	<u>62,713</u>
	4,113,890	4,073,484	4,121,155	4,098,848	8,235,045	8,172,332
Prior Period Adjustment	4,056	-	-	-	4,056	-
Net assets as restated, July 1	<u>4,117,946</u>	<u>4,073,484</u>	<u>4,121,155</u>	<u>4,098,848</u>	<u>8,239,101</u>	<u>8,172,332</u>
Net assets, June 30	<u>\$ 4,015,979</u>	<u>\$ 4,113,890</u>	<u>\$ 4,006,560</u>	<u>\$ 4,121,155</u>	<u>\$ 8,022,539</u>	<u>\$ 8,235,045</u>

Governmental activities – Governmental activities decreased the Town's net assets by \$101,967. Key elements of this decrease are as follows:

- No grants for the purchase of new capital assets.
- Stabilization in property tax incomes, last year the Town received a sizable unexpected one time tax adjustment. Property tax income was \$29,479 less than last fiscal year.

Business-type activities: Business-type activities decreased the Town's assets by \$114,595. Key elements of this decrease are as follows:

- No new investments in capital.
- No grants for the purchase of capital assets (\$124,360 less than last fiscal year).
- Lower than normal water consumption for the fiscal year, with increased rates not offsetting the total increased costs (19% rate increase from the County in July 2008).

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 \$2,504,663, a decrease of \$31,175 in comparison with the prior year.

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 more than the budgeted amount by \$11,784. Once again higher than anticipated revenue mostly fell into two categories: increased tax receipts and park fees/concessions, but were saddled by lower than anticipated investment earnings. We were extremely cautious in our revenue estimates, but state-collected local revenues still underperformed our most cautious estimates.

The actual operating expenses for the General Fund were less than the budgeted amount by \$59,726. This was primarily due to the continued efforts of staff to show restraint in purchases and overall responsible fiscal stewardship. The total sum of this

under expenditure is reflected in our freezing of all non emergency capital outlay, specifically in investments public transportation.

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 \$1,622,649 reflecting a \$7,638 increase from the prior year. The town, as expressed in earlier sections, limited all capital outlay. Net Assets invested in Capital Assets, net of related debt was \$2,383,911, a decline of \$122,233; bringing the amount in assets to approximately the same amounts from June 30, 2008.

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, 2010, totals \$3,846,595 reflecting an \$186,927 decline (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

- No additions of note.

Retirements and Dispositions

- No retirements, just regular book depreciation

Proprietary Funds:

Additions

- No additions of note.

Retirements

- No retirements, just regular book depreciation

Figure 6:

**Town of Biscoe
Capital Assets**

	Governmental		Business-type		Total	
	Activities	Activities	Activities	Activities	Total	Total
	2010	2009	2010	2009	2010	2009
Land	\$ 608,618	\$ 608,618	\$ -	\$ -	\$ 608,618	\$ 608,618
Buildings	1,993,826	1,972,139	-	-	1,993,826	1,972,139
Infrastructure	207,266	168,839	-	-	207,266	168,839
Equipment & vehicles	1,393,248	1,388,784	1,433,706	1,420,745	2,826,954	2,809,529
Water distribution systems	-	-	3,367,706	3,362,706	3,367,706	3,362,706
Total Net Assets	4,202,958	4,138,380	4,801,412	4,783,451	9,004,370	8,921,831
Depreciation	(2,740,274)	(2,611,002)	(2,417,501)	(2,277,307)	(5,157,775)	(4,888,309)
Total Capital Assets (net of accumulated depreciation)	\$ 1,462,684	\$ 1,527,378	\$ 2,383,911	\$ 2,506,144	\$ 3,846,595	\$ 4,033,522

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, 2010, 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, as reported by the Employment Security Commission, in June 2010 was 12.5%. Montgomery County has continued to remain above the State average unemployment rate.
- The economic climate has forced the Town to be extremely conservative in its 2009-2010 budget preparations; this caution has been applied to the 2010-2011 budget preparation. The outlook is better for 2010-2011. The Town is planning to invest in capital.
- The Waffle House and an O'Reilly Auto Parts Store opened in 2009. The large housing development which obtained approval of the Town Commissioners in 2008 has become a victim of the weak housing market.
- The Town is, once again, continuing talks from the previous years with an industry which would more than double the tax base and create new jobs. Should this plant construct here, we will see significant grant opportunities related to job creation for the placement of additional infrastructure. Additional complications have arisen which are jeopardizing the future of this project.

Next Year's Budget Highlights for the Fiscal Year Ending June 30, 2011

Governmental Activities: The governmental fund's primary revenue resources are property taxes and other taxes and licenses. For the fiscal year ending June 30, 2010, the budgeted revenues remained consistent with prior year's actual amounts. In 2009-2010 the Town aggressively pursued an additional Clean Water Management Trust Fund Grant, a Park and Recreation Management Trust Fund Grant, a CDBG Small Business Entrepreneur Assistance Grant, a Safe Routes to Schools Grant, and a NCDOT Bi-Ped Planning Grant. We were approved for the CDBG SBEA, PARTF, and Bi-Ped Planning Grants. We intend to reapply for the 2010-2011 cycles of the remainder funds, and have already submitted applications for some of them. We are uncertain of the future of these funds due to funding restraints at the State level, which will see most of these grant programs frozen in the coming year.

Budgeted operating expenditures in the General Fund are expected to stay mostly flat, with the exception of capital outlays. Due to the economic environment, the Town is not providing its workers with Cost of Living or merit-based raises; this will be revisited in November. The Town has resumed planned major capital expenditures in accordance with our Capital Improvement Program. We will purchase a new police cruiser and participate in the Office of State Fire Marshall Grant for fire equipment. We will purchase a riding lawnmower for right-of-way maintenance and we will be receiving a substantial line replacement at the cost of NCDOT in accordance with General Statute 136-27.1. Our entire water, hydrants, meters and sewer lines will be replaced along the Highway 24/27 corridor between I74 and the Town Hall (approximately .5 mile).

Business – type Activities: As noted last year, the water and sewer rates in the Town have seen an increase of 19%. The increase was mandated by the County increasing the water purchase rates to the Town by approximately 19%. Budgeted water and sewer revenues have been flat, while the higher rates lead us to believe we would see an increase in revenues, we actually notice an effort by our customers to conserve and use less water. Our revenues have stayed flat. The County Commissioners have approved a second major rate increase of 40%. This rate will be in place for the 2010-2011 budget. The Town of Biscoe, due to this increase, has undergone a study with the North Carolina Rural Water Association to evaluate our rates. We have adopted a new rate model which has lowered the inequity of in-town to out-of-town rates. The new model has kept the base rate low and shifted the cost of funding our system to high volume users by increasing the cost of use beyond the minimum. We have also eliminated our commercial descending block rate, as required by the State. We factored in a potential decline in consumption and anticipate higher revenues for 2010-2011.

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, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 2,411,672	\$ 1,529,674	\$ 3,941,346
Taxes receivable (net)	71,903	-	71,903
Accrued interest receivable	6,532	-	6,532
Accounts receivable (net)	-	63,901	63,901
Inventories	-	28,367	28,367
Internal balances	11,223	(11,223)	-
Due from other governments	140,388	66,666	207,054
Total Current Assets	2,641,718	1,677,385	4,319,103
Restricted Assets:			
Cash and cash equivalents	-	8,186	8,186
Non-current Assets:			
Capital Assets (Note 1):			
Land, non-depreciable improvements, and construction in progress	608,618	-	608,618
Other capital assets, net of depreciation	854,066	2,383,911	3,237,977
Total Capital Assets	1,462,684	2,383,911	3,846,595
Total Assets	4,104,402	4,069,482	8,173,884
Liabilities:			
Current Liabilities:			
Accounts payable and accrued expenses	52,898	33,161	86,059
Due to other funds	12,254	-	12,254
Customer deposits	-	8,186	8,186
Current portion of compensated absences	23,271	21,575	44,846
Total Current Liabilities	88,423	62,922	151,345
Total Liabilities	88,423	62,922	151,345
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,462,684	2,383,911	3,846,595
Restricted for:			
Transportation	64,590	-	64,590
Public safety	20,304	-	20,304
Unrestricted	2,468,401	1,622,649	4,091,050
Total Net Assets	\$ 4,015,979	\$ 4,006,560	\$ 8,022,539

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, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 455,746	\$ 3,938	\$ 11,427	\$ -	\$(440,381)	\$ -	\$(440,381)
Public safety	700,872	-	60,357	-	(640,515)	-	(640,515)
Transportation	204,194	-	51,430	-	(152,764)	-	(152,764)
Cultural and recreational	87,746	45,285	-	-	(42,461)	-	(42,461)
Total Governmental Activities (See Note 1)	1,448,558	49,223	123,214	-	(1,276,121)	-	(1,276,121)
Business-type Activities:							
Water and sewer	751,006	618,681	-	-	-	(132,325)	(132,325)
Total Business-type Activities	751,006	618,681	-	-	-	(132,325)	(132,325)
Total Primary Government	\$ 2,199,564	\$ 667,904	\$ 123,214	\$ -	(1,276,121)	(132,325)	(1,408,446)
General Revenues:							
Taxes:							
Property taxes, levied for general purpose					623,832	-	623,832
Other taxes					267,849	3,282	271,131
Grants and contributions not restricted to specific programs					190,838	-	190,838
Unrestricted investment earnings					49,132	13,034	62,166
Miscellaneous					42,503	1,414	43,917
Transfers					-	-	-
Total General Revenues and Transfers					1,174,154	17,730	1,191,884
Change in net assets					(101,967)	(114,595)	(216,562)
Net Assets, Beginning as Previously Reported					4,113,890	4,121,155	8,235,045
Prior Period Adjustment					4,056	-	4,056
Net Assets, Beginning as Restated					4,117,946	4,121,155	8,239,101
Net Assets, Ending					\$ 4,015,979	\$ 4,006,560	\$ 8,022,539

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

TOWN OF BISCOE, NORTH CAROLINA**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2010

	Major Funds			Non-Major Fund	Total Governmental Funds
	General Fund	Special Revenue	Capital Reserve	Capital Project	
Assets:					
Cash and cash equivalents	\$ 1,099,417	\$ -	\$ 1,312,255	\$ -	\$ 2,411,672
Receivables, net:					
Taxes	71,903	-	-	-	71,903
Accounts	-	-	-	-	-
Accrued interest receivable	2,438	-	4,094	-	6,532
Due from other funds	11,223	-	-	-	11,223
Due from other governments	140,388	-	-	-	140,388
Total Assets	\$ 1,325,369	\$ -	\$ 1,316,349	\$ -	\$ 2,641,718
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable and accrued liabilities	\$ 41,304	\$ -	\$ -	\$ 11,594	\$ 52,898
Due to other funds	-	-	-	12,254	12,254
Deferred revenue	71,903	-	-	-	71,903
Total Liabilities	113,207	-	-	23,848	137,055
Fund Balances:					
Reserved for:					
State statute	140,388	-	-	-	140,388
Streets-Powell bill	64,590	-	-	-	64,590
Equitable sharing	20,304	-	-	-	20,304
Unreserved:					
Designated for subsequent year's expenditures	172,239	-	182,400	-	354,639
Designated for capital projects	-	-	1,133,949	(23,848)	1,110,101
Undesignated	814,641	-	-	-	814,641
Total Fund Balances	1,212,162	-	1,316,349	(23,848)	2,504,663
Total Liabilities and Fund Balances	\$ 1,325,369	\$ -	\$ 1,316,349	\$ -	

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	\$ 4,202,958	
Accumulated depreciation	(2,740,274)	1,462,684

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. 71,903

Some liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the funds. (Note 1) (23,271)

Net assets of governmental activities 4,015,979

TOWN OF BISCOE, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	Major Funds			Non-Major Fund	Total Governmental Funds
	General Fund	Special Revenue	Capital Reserve	Capital Project	
Revenues:					
Ad valorem taxes	\$ 623,013	\$ -	\$ -	\$ -	\$ 623,013
Other taxes and licenses	267,849	-	-	-	267,849
Unrestricted intergovernmental	190,838	-	-	-	190,838
Restricted intergovernmental	84,905	11,427	-	26,882	123,214
Permits and fees	3,938	-	-	-	3,938
Sales and services	45,285	-	-	-	45,285
Investment earnings	9,573	-	39,559	-	49,132
Miscellaneous	42,503	-	-	-	42,503
Total Revenues	<u>1,267,904</u>	<u>11,427</u>	<u>39,559</u>	<u>26,882</u>	<u>1,345,772</u>
Expenditures:					
Current:					
General government	417,752	11,427	-	-	429,179
Public safety	578,388	-	-	62,884	641,272
Transportation - streets	223,655	-	-	-	223,655
Cultural and recreational	86,897	-	-	-	86,897
Total Expenditures	<u>1,306,692</u>	<u>11,427</u>	<u>-</u>	<u>62,884</u>	<u>1,381,003</u>
Revenues Over (Under) Expenditures	<u>(38,788)</u>	<u>-</u>	<u>39,559</u>	<u>(36,002)</u>	<u>(35,231)</u>
Other Financing Sources (Uses):					
Sale of capital asset	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>(38,788)</u>	<u>-</u>	<u>39,559</u>	<u>(36,002)</u>	<u>(35,231)</u>
Fund Balance, Beginning as Previously Reported	1,259,048	-	1,276,790	-	2,535,838
Prior Period Adjustment	(8,098)	-	-	12,154	4,056
Fund Balance, Beginning as Restated	<u>1,250,950</u>	<u>-</u>	<u>1,276,790</u>	<u>12,154</u>	<u>2,539,894</u>
Fund Balance, Ending	<u>\$ 1,212,162</u>	<u>\$ -</u>	<u>\$ 1,316,349</u>	<u>\$ (23,848)</u>	<u>\$ 2,504,663</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, 2010

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

Net changes in fund balances - total governmental funds \$ (35,231)

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	\$ 64,578	
Depreciation expense for governmental assets	(129,272)	
Asset disposal	<u>-</u>	(64,694)

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	819
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	<u>(2,861)</u>
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Total changes in net assets of governmental activities	\$ <u><u>(101,967)</u></u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF BISCOE, NORTH CAROLINA
GENERAL FUND AND ANNUALLY BUDGETED
MAJOR CAPITAL RESERVE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2010

	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	\$ 574,962	\$ 599,962	\$ 623,013	\$ 23,051	\$ -	\$ -	\$ -	\$ -
Other taxes and licenses	284,246	284,246	267,849	(16,397)	-	-	-	-
Unrestricted intergovernmental	195,052	198,052	190,838	(7,214)	-	-	-	-
Restricted intergovernmental	76,041	83,041	84,905	1,864	-	-	-	-
Permits and fees	2,600	2,600	3,938	1,338	-	-	-	-
Sales and services	38,000	38,000	45,285	7,285	-	-	39,559	(10,441)
Investment earnings	25,100	25,101	9,573	(15,528)	50,000	50,000	39,559	(10,441)
Miscellaneous	40,000	52,000	42,503	(9,497)	-	-	-	-
Total Revenues	1,236,001	1,283,002	1,267,904	(15,098)	50,000	50,000	39,559	(10,441)
Expenditures:								
Current:								
General government	391,852	436,951	417,752	19,199	-	-	-	-
Public safety	573,061	619,062	578,388	(40,674)	-	-	-	-
Transportation - streets	274,559	274,558	223,655	(50,903)	-	-	-	-
Cultural and recreational	98,731	98,731	86,897	(11,834)	-	-	-	-
Contingency	-	-	-	-	50,000	50,000	-	50,000
Total Expenditures	1,338,203	1,429,302	1,306,692	122,610	50,000	50,000	-	50,000
Revenues Over (Under) Expenditures	(102,202)	(146,300)	(38,788)	107,512	-	-	39,559	39,559
Other Financing Sources (Uses):								
Sale of capital assets	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-	-	-
Fund Balance Appropriated	102,200	146,300	-	(146,300)	-	-	-	-
Net Change in Fund Balance	(2)	-	(38,788)	(38,788)	-	-	39,559	39,559
Fund Balance, Beginning as Previously Reported			1,259,048				1,276,790	
Prior Period Adjustment			(8,098)				-	
Fund Balance, Beginning as Restated			1,250,950				1,276,790	
Fund Balance, Ending			\$ 1,212,162				\$ 1,316,349	

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

TOWN OF BISCOE, NORTH CAROLINASTATEMENT OF NET ASSETS
PROPRIETARY FUND

June 30, 2010

	<u>Major Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 1,529,674	\$ 1,529,674
Accounts receivable (net)	63,901	63,901
Due from other governments	66,666	66,666
Inventories	<u>28,367</u>	<u>28,367</u>
Total Current Assets	<u>1,688,608</u>	<u>1,688,608</u>
Noncurrent Assets:		
Restricted assets:		
Cash and cash equivalents	<u>8,186</u>	<u>8,186</u>
Capital assets:		
Other capital assets, net of depreciation	<u>2,383,911</u>	<u>2,383,911</u>
Capital assets (net)	<u>2,383,911</u>	<u>2,383,911</u>
Total Noncurrent Assets	<u>2,392,097</u>	<u>2,392,097</u>
Total Assets	<u>\$ 4,080,705</u>	<u>\$ 4,080,705</u>
Liabilities:		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 33,161	\$ 33,161
Due to other funds	11,223	11,223
Customer deposits	8,186	8,186
Current portion of compensated absences	<u>21,575</u>	<u>21,575</u>
Total Current Liabilities	<u>74,145</u>	<u>74,145</u>
Total Liabilities	<u>74,145</u>	<u>74,145</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	2,383,911	2,383,911
Unrestricted	<u>1,622,649</u>	<u>1,622,649</u>
Total Net Assets	<u>\$ 4,006,560</u>	<u>\$ 4,006,560</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, 2010

	<u>Major Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
Operating Revenues:		
Charges for services	\$ 610,261	\$ 610,261
Water and sewer taps	3,100	3,100
Other operating revenues	<u>5,320</u>	<u>5,320</u>
Total Operating Revenues	<u>618,681</u>	<u>618,681</u>
Operating Expenses:		
Water and sewer operations	610,813	610,813
Depreciation	<u>140,193</u>	<u>140,193</u>
Total Operating Expenses	<u>751,006</u>	<u>751,006</u>
Operating Income (Loss)	<u>(132,325)</u>	<u>(132,325)</u>
Nonoperating Revenues (Expenses):		
Investment earnings	13,034	13,034
Tax refunds	3,282	3,282
Miscellaneous	<u>1,414</u>	<u>1,414</u>
Total Nonoperating Revenue (Expenses)	<u>17,730</u>	<u>17,730</u>
Income (Loss) before contributions and transfers	(114,595)	(114,595)
Capital contributions	-	-
Transfer from other funds	<u>-</u>	<u>-</u>
Change in Net Assets	(114,595)	(114,595)
Net Assets, Beginning	<u>4,121,155</u>	<u>4,121,155</u>
Net Assets, Ending	<u>\$ 4,006,560</u>	<u>\$ 4,006,560</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, 2010

	<u>Major Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 617,123	\$ 617,123
Cash paid for goods and services	(328,485)	(328,485)
Cash paid to or on behalf of employees for services	(251,098)	(251,098)
	<u>37,540</u>	<u>37,540</u>
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	<u>-</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(17,961)	(17,961)
Capital contributions - State Grant	-	-
Tax refunds	3,282	3,282
Miscellaneous	1,414	1,414
	<u>(13,265)</u>	<u>(13,265)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(13,265)</u>	<u>(13,265)</u>
Cash Flows from Investing Activities:		
Interest and dividends	<u>13,034</u>	<u>13,034</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>37,309</u>	<u>37,309</u>
Balance, Beginning of the Year	<u>1,500,551</u>	<u>1,500,551</u>
Balance, End of the Year	<u>\$ 1,537,860</u>	<u>\$ 1,537,860</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, 2010

	Major Enterprise Fund	
	Water and Sewer Fund	Total
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ (132,325)	\$ (132,325)
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	140,193	140,193
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	6,414	6,414
(Increase) decrease from other governments	28,930	28,930
(Increase) decrease in inventory	(3,166)	(3,166)
Increase (decrease) in accounts payable and accrued liabilities	(8,229)	(8,229)
Increase (decrease) in customer deposits	-	-
Increase (decrease) in accrued vacation pay	5,723	5,723
Total Adjustments	169,865	169,865
Net Cash Provided by Operating Activities	\$ 37,540	\$ 37,540

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

For the Year Ended June 30, 2010

	<u>Pension Trust Fund</u>	
	<u>Special Separation Allowance Fund</u>	<u>Total</u>
Assets:		
Cash and cash equivalents	\$ 50,533	\$ 50,533
Accrued interest	<u>418</u>	<u>418</u>
Total Assets	\$ <u>50,951</u>	\$ <u>50,951</u>
Liabilities:		
Accrued benefits	\$ <u>-</u>	\$ <u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>
Net Assets:		
Reserved for employees' pension benefits	<u>50,951</u>	<u>50,951</u>
Total Net Assets	\$ <u>50,951</u>	\$ <u>50,951</u>

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

TOWN OF BISCOE, NORTH CAROLINASTATEMENT OF FIDUCIARY NET ASSETSFIDUCIARY FUND

For the Year Ended June 30, 2010

	<u>Pension Trust Fund</u>	
	<u>Special Separation Allowance Fund</u>	<u>Total</u>
Assets:		
Cash and cash equivalents	\$ 50,533	\$ 50,533
Accrued interest	418	418
Total Assets	\$ <u>50,951</u>	\$ <u>50,951</u>
Liabilities:		
Accrued benefits	\$ -	\$ -
Total Liabilities	-	-
Net Assets:		
Reserved for employees' pension benefits	<u>50,951</u>	<u>50,951</u>
Total Net Assets	\$ <u>50,951</u>	\$ <u>50,951</u>

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, 2010

	<u>Pension Trust Fund</u>	
	<u>Special Separation Allowance Fund</u>	<u>Total</u>
Revenues:		
Investment earnings	\$ 872	\$ 872
Municipal contributions	<u>6,000</u>	<u>6,000</u>
Total Revenues	<u>6,872</u>	<u>6,872</u>
Expenditures:		
Employee benefits	<u>15,182</u>	<u>15,182</u>
Total Expenditures	<u>15,182</u>	<u>15,182</u>
Change in Net Assets	<u>(8,310)</u>	<u>(8,310)</u>
Total Net Assets, Beginning as Previously Reported	63,317	63,317
Prior Period Adjustment	<u>(4,056)</u>	<u>(4,056)</u>
Total Net Assets, Beginning as Restated	<u>59,261</u>	<u>59,261</u>
Total Net Assets, Ending	<u>\$ 50,951</u>	<u>\$ 50,951</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, 2010

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, 2010, 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, including fiduciary fund. Separate statements for each fund category – *governmental, proprietary, and fiduciary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

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

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.

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 non-major governmental funds:

Capital Project Fund. This fund is used to account for grant funds that are 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.

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)

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary 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.

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as 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

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)

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 2009 through February 2010 apply to the fiscal year ended June 30, 2010. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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 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 1st, the beginning of the fiscal year. The taxes are due September 1st (lien date); however, penalties and interest do not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2009. 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, computer software, 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
Computer software	5
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. Compensated time is only accrued for the proprietary fund. 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 does not have any 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 which is 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. This amount 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 2010-2011 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.

Subsequent Events

The Town has evaluated all subsequent events through November 23, 2010, the date the financial statements were available to be issued.

TOWN OF BISCOE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2 - Stewardship, Compliance, and Accountability

Deficit in Fund Balance of Individual Funds

The Capital Project Fund – CWMTF Grant Fund had a deficit fund balance of \$36,411. The Capital Project Fund – OSFM Grant Fund had a deficit balance of \$23,848. The Town plans to monitor the projects in order to assess the correction of the deficit fund balances by recognizing income from grant sources and transfers from other funds. This is in violation of General Statute 159-13(b)(2) of the laws of North Carolina.

Note 3 - Detail Notes on All Funds

Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in 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 its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for 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 formal 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, 2010, the Town's deposits, which includes the Special Separation Allowance Fund, had a carrying amount of \$4,000,065 and a bank balance of \$4,052,085. Of the bank balance, \$587,370 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2010, the Town had no petty cash fund.

TOWN OF BISCOE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 3 - Detail Notes on All Funds (Continued)

Assets (Continued)

Receivables - Allowances for Doubtful Accounts

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

Fund	6/30/2010
General Fund:	
Taxes receivable	\$ 9,307
Enterprise Fund:	
Accounts receivable	24,500
	<hr/>
Total	\$ 33,807

Capital Assets

Capital asset activity for the Primary Government year ended June 30, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 608,618	\$ -	\$ -	\$ 608,618
Total capital assets not being depreciated	<hr/> 608,618	<hr/> -	<hr/> -	<hr/> 608,618
Capital assets being depreciated:				
Buildings	1,972,139	21,687	-	1,993,826
Infrastructure	168,839	38,427	-	207,266
Equipment	573,579	4,464	-	578,043
Computer software	13,635	-	-	13,635
Vehicles and motorized equipment	801,570	-	-	801,570
Total capital assets being depreciated	<hr/> 3,529,762	<hr/> 64,578	<hr/> -	<hr/> 3,594,340
Less accumulated depreciation for:				
Buildings	1,510,864	54,695	-	1,565,559
Infrastructure	20,053	8,922	-	28,975
Equipment	460,506	29,885	-	490,391
Computer software	13,635	-	-	13,635
Vehicles and motorized equipment	605,944	35,770	-	641,714
Total accumulated depreciation	<hr/> 2,611,002	<hr/> \$ 129,272	<hr/> \$ -	<hr/> 2,740,274
Total capital assets being depreciated, net	<hr/> 918,760			<hr/> 854,066
Governmental activity capital assets, net	<hr/> \$ 1,527,378			<hr/> \$ 1,462,684

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	\$	49,077
Public safety		55,916
Transportation		18,966
Cultural and recreational		5,313
Total depreciation expense	\$	<u>129,272</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	\$ 3,362,706	\$ 5,000	\$ -	\$ 3,367,706
Furniture and maintenance equipment	1,248,108	12,961	-	1,261,069
Vehicles	172,637	-	-	172,637
Total capital assets being depreciated	<u>4,783,451</u>	<u>17,961</u>	<u>-</u>	<u>4,801,412</u>
Less accumulated depreciation for:				
Plant and distribution systems	1,825,058	83,460	-	1,908,518
Furniture and maintenance equipment	336,813	40,948	-	377,761
Vehicles	115,436	15,786	-	131,222
Total accumulated depreciation	<u>2,277,307</u>	<u>\$ 140,194</u>	<u>\$ -</u>	<u>2,417,501</u>
Total capital assets being depreciated, net	<u>2,506,144</u>			<u>2,383,911</u>
Business-type activities capital assets, net	<u>\$ 2,506,144</u>			<u>\$ 2,383,911</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, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.8% and 4.86%, respectively, of annual covered payroll. 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, 2010, 2009, and 2008 were \$27,917, \$28,339, and \$44,287, 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)

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2009 the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>8</u>
Total	<u><u>9</u></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 \$20,496, or 8.04% 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, 2008 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	\$ 8,031
Interest on net pension obligation	(229)
Adjustment to annual required contribution	199
Annual pension cost	<u>8,001</u>
Employer contributions made	20,496
Increase (decrease) in net pension obligation	<u>(12,495)</u>
Net pension obligation beginning of fiscal year	(3,154)
Net pension obligation end of fiscal year	\$ <u>(15,649)</u>

For Year Ended June 30	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
2008	\$ 5,065	99.37%	\$ 2,854
2009	5,670	205.96%	(3,154)
2010	8,001	256.17%	(15,649)

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)

Funded Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the plan was 57.50 percent funded. The actuarial accrued liability for benefits was \$155,066, and the actuarial value of assets was \$89,169, resulting in an unfunded actuarial accrued liability (UAAL) of \$65,897. The covered payroll (annual payroll of active employees covered by the plan) was \$254,781, and the ratio of the UAAL to the covered payroll was 25.86 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. 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. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2010 were \$34,930, which consisted of \$22,235 from the Town and \$12,695 from the law enforcement officers.

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)

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.

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

TOWN OF BISCOE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 3 - Detail Notes on All Funds (Continued)

Liabilities (Continued)

Other Employment Benefit (Concluded)

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	71,903

Total	\$ 71,903

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.

TOWN OF BISCOE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 3 - Detail Notes on All Funds (Concluded)

Liabilities (Concluded)

Risk Management (Concluded)

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 \$100,000. All other employees are covered under a \$100,000 blanket bond.

Long-Term Obligations

At June 30, 2010, the Town had a legal debt margin of approximately \$8,563,490.

Interfund Balances and Activity

Balances due to/from other funds at June 30, 2010, consist of the following:

Due to the General Fund for governmental expenses from:

Water/Sewer Fund	\$ <u>11,223</u>
------------------	------------------

The interfund balances resulted from payments for payroll withholdings in the Water and Sewer Fund paid by the General Fund.

Note 4 - Prior Period Adjustment

During the fiscal year ended June 30, 2010, the Town determined that contributions had been made for the Law Enforcement Officers Separation Allowance in two previous fiscal years that had been omitted from the financial statements. Therefore, an adjustment to beginning fund balance has been recorded to account for these contributions. The General Fund beginning balance increased by \$4,056 and the Special Separation Allowance Fund beginning balance decreased by \$4,056. The General Fund had made these contributions for the benefit of the Special Separation Allowance Fund.

During the fiscal year ended June 30, 2010, the Town determined that Capital Projects – OSFM Grant revenue had been included in the General Fund in error. Therefore, an adjustment to beginning fund balance has been recorded to account for this revenue. The General Fund beginning balance decreased by \$12,154 and the Capital Projects – OSFM Grant beginning balance has been increased by \$12,154.

TOWN OF BISCOE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Note 5 - Jointly Governed Organization

The Town, in conjunction with 7 counties and 42 other municipalities, established the Piedmont Triad Regional Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$650 to the Council during the fiscal year ended June 30, 2010.

Note 6 - 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, 2010. 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.

Firemen's Relief Fund

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these monies to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the Town's fire department by the board of trustees. During the fiscal year ended June 30, 2010, the Town reported no payments through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2010. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

Note 7 - 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.

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>
12/31/02	\$ 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%
12/31/07	72,054	90,660	18,606	79.48%	287,022	6.48%
12/31/08	80,487	135,601	55,114	59.36%	249,856	22.06%
12/31/09	89,169	155,066	65,897	57.50%	254,781	25.86%

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>
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%
2008	5,065	99.37%
2009	5,670	205.96%
2010	8,001	256.17%

* 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	12/31/2009
Actuarial cost method	Projected unit credit
Remaining method	Level percent of pay closed
Remaining amortization period	21 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
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, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad Valorem Taxes:			
Taxes	\$	\$ 619,262	\$
Penalties and interest		3,751	
Total	<u>599,962</u>	<u>623,013</u>	<u>23,051</u>
Other Taxes and Licenses:			
ABC mixed beverage		-	
Local option sales tax		267,192	
Cablevision franchise fee		657	
Other taxes		-	
Total	<u>284,246</u>	<u>267,849</u>	<u>(16,397)</u>
Unrestricted Intergovernmental:			
Franchise tax		172,448	
Beer and wine taxes		2,499	
Solid waste disposal tax		1,216	
Tax refunds		14,675	
Total	<u>198,052</u>	<u>190,838</u>	<u>(7,214)</u>
Restricted Intergovernmental:			
Powell Bill allocation		51,430	
DSM revenues		13,631	
Grant funds		19,844	
Total	<u>83,041</u>	<u>84,905</u>	<u>1,864</u>
Permits and Fees	<u>2,600</u>	<u>3,938</u>	<u>1,338</u>
Sales and Services:			
Cemetery lot sales		5,805	
Concession receipts		39,480	
Total	<u>38,000</u>	<u>45,285</u>	<u>7,285</u>
Investment Earnings	<u>25,101</u>	<u>9,573</u>	<u>(15,528)</u>
Miscellaneous:			
Contributions		590	
Fire department donations		36,342	
Other		5,571	
Total	<u>52,000</u>	<u>42,503</u>	<u>(9,497)</u>
Total Revenues	\$ 1,283,002	\$ 1,267,904	\$ (15,098)

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, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General Government:			
Salaries and employee benefits	\$	\$ 152,794	\$
Capital outlay		-	
Other operating expenditures		139,525	
Total	<u>303,338</u>	<u>292,319</u>	<u>11,019</u>
Legal and professional services:			
Other operating expenditures	<u>24,000</u>	<u>23,346</u>	<u>654</u>
Public buildings and grounds:			
Other operating expenditures		85,433	
Capital outlay		16,654	
Total	<u>109,613</u>	<u>102,087</u>	<u>7,526</u>
Total General Government	<u>436,951</u>	<u>417,752</u>	<u>19,199</u>
Public Safety:			
Police Department:			
Salaries and employee benefits		384,854	
Other operating expenditures		77,288	
Capital outlay		14,656	
Total	<u>517,432</u>	<u>476,798</u>	<u>40,634</u>
Fire Department:			
Salaries and employee benefits		3,621	
Other operating expenditures		60,751	
Fire department expense		33,108	
Capital outlay		4,110	
Total	<u>101,630</u>	<u>101,590</u>	<u>40</u>
Total Public Safety	<u>619,062</u>	<u>578,388</u>	<u>40,674</u>
Transportation:			
Streets:			
Salaries and employee benefits		-	
Other operating expenditures		177,013	
Capital outlay		-	
Total	<u>\$ 190,465</u>	<u>\$ 177,013</u>	<u>\$ 13,452</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, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures (Concluded):			
Transportation			
Streets - Powell Bill:			
Salaries and employee benefits	\$	\$ 2,850	\$
Other operating expenditures		43,792	
Capital outlay		-	
Total	<u>84,093</u>	<u>46,642</u>	<u>37,451</u>
Total Transportation - Streets	<u>274,558</u>	<u>223,655</u>	<u>50,903</u>
Cultural and Recreational:			
Recreation department:			
Salaries and benefits		30,003	
Other operating expenditures		52,430	
Capital outlay		4,464	
Total Cultural and Recreational	<u>98,731</u>	<u>86,897</u>	<u>11,834</u>
Contingency:	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>1,429,302</u>	<u>1,306,692</u>	<u>122,610</u>
Revenues Over (Under) Expenditures	<u>(146,300)</u>	<u>(38,788)</u>	<u>107,512</u>
Other Financing Sources (Uses):			
Sale of capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance Appropriated	146,300	-	(146,300)
Net Change in Fund Balance	\$ <u>-</u>	\$ <u>(38,788)</u>	\$ <u>(38,788)</u>
Fund Balance, Beginning as Previously Reported		1,259,048	
Prior Period Adjustment		<u>(8,098)</u>	
Fund Balance, Beginning as Restated		<u>1,250,950</u>	
Fund Balance, Ending⁸		<u>\$ 1,212,162</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, 2010

	<u>Project</u> <u>Authorization</u>	<u>Prior</u> <u>Years</u>	<u>Actual</u> <u>Current</u> <u>Year</u>	<u>Total to</u> <u>Date</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
Revenues:					
CWMTF Grant	\$ 530,000	\$ 530,000	-	\$ 530,000	-
STAG Grant	<u>66,000</u>	<u>66,666</u>	<u>-</u>	<u>66,666</u>	<u>666</u>
Total Revenues	<u>596,000</u>	<u>596,666</u>	<u>-</u>	<u>596,666</u>	<u>666</u>
Expenditures:					
Lagoon	208,500	266,416	625	267,041	(58,541)
Pump Station	166,690	197,303	-	197,303	(30,613)
Dechloration	84,518	84,518	-	84,518	-
Telemetry	158,741	176,314	-	176,314	(17,573)
Engineering Fees	<u>69,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,650</u>
Total Expenditures	<u>688,099</u>	<u>724,551</u>	<u>625</u>	<u>725,176</u>	<u>(37,077)</u>
Revenues Over (Under) Expenditures	<u>(92,099)</u>	<u>(127,885)</u>	<u>(625)</u>	<u>(128,510)</u>	<u>(36,411)</u>
Other Financing Sources (Uses):					
Transfers from other funds:	<u>92,099</u>	<u>92,099</u>	<u>-</u>	<u>92,099</u>	<u>-</u>
Total Other Financing Sources (Uses):	<u>92,099</u>	<u>92,099</u>	<u>-</u>	<u>92,099</u>	<u>-</u>
Fund Balance Appropriated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>(35,786)</u>	<u>(625)</u>	<u>(36,411)</u>	<u>(36,411)</u>
Fund Balance, Beginning	<u>-</u>	<u>(35,786)</u>	<u>(35,786)</u>	<u>-</u>	<u>-</u>
Fund Balance, Ending	<u>\$ -</u>	<u>\$ (36,411)</u>	<u>\$ (36,411)</u>	<u>\$ (36,411)</u>	<u>\$ (36,411)</u>

TOWN OF BISCOE, NORTH CAROLINA
CAPITAL PROJECT FUND - OSFM GRANT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2010

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
OSFM Grant	\$ 26,882	-	26,882	26,882	-
Total Revenues	<u>26,882</u>	<u>-</u>	<u>26,882</u>	<u>26,882</u>	<u>-</u>
Expenditures:					
Air compressor	38,943	-	41,002	41,002	(2,059)
Protective equipment	14,821	-	17,332	17,332	(2,511)
Open	-	-	4,550	4,550	(4,550)
Total Expenditures	<u>53,764</u>	<u>-</u>	<u>62,884</u>	<u>62,884</u>	<u>(9,120)</u>
Revenues Over (Under) Expenditures	<u>(26,882)</u>	<u>-</u>	<u>(36,002)</u>	<u>(36,002)</u>	<u>(9,120)</u>
Other Financing Sources (Uses):					
Transfers from other funds:	26,882	-	-	-	(26,882)
Total Other Financing Sources (Uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,882)</u>
Fund Balance Appropriated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>(36,002)</u>	<u>(36,002)</u>	<u>(36,002)</u>
Fund Balance, Beginning as Previously Reported					
Prior Period Adjustment			12,154		
Fund Balance, Beginning as Restated			<u>12,154</u>		
Fund Balance, Ending			<u>(23,848)</u>		

TOWN OF BISCOE, NORTH CAROLINA

**SPECIAL REVENUE FUND - CDBG PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 From Inception and For the Fiscal Year Ended June 30, 2010**

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
CDBG Grant	\$ 250,000	\$ 236,359	\$ 11,427	\$ 247,786	\$ (2,214)
Total Revenues	<u>250,000</u>	<u>236,359</u>	<u>11,427</u>	<u>247,786</u>	<u>(2,214)</u>
Expenditures:					
Purchasing and installation	225,000	225,000	-	225,000	-
Training	2,214	-	-	-	2,214
Planning	5,000	-	-	-	5,000
Administration	17,786	11,359	11,427	22,786	(5,000)
Total Expenditures	<u>250,000</u>	<u>236,359</u>	<u>11,427</u>	<u>247,786</u>	<u>2,214</u>
Revenues Over (Under) Expenditures					
Net Change in Fund Balance	-	-	-	-	-
Fund Balance, Beginning	-	-	-	-	-
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2010

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating Revenues:			
Charges for services	\$	\$ 613,413	\$
Total Operating Revenues	581,300	613,413	32,113
Nonoperating Revenues:			
Interest earned on investments		13,034	
Tax refunds		3,282	
Miscellaneous		1,959	
Total Nonoperating Revenues	52,700	18,275	(34,425)
Total Revenues	634,000	631,688	(2,312)
Expenditures:			
Water and Sewer Operations:			
Salaries and employee benefits		252,006	
Other operating expenditures		165,240	
Purchases for resale		160,326	
Bad debt		-	
Capital outlay		50,577	
Total Water and Sewer Operations	811,045	628,149	182,896
Total Expenditures	811,045	628,149	182,896
Revenues Over (Under) Expenditures	(177,045)	3,539	180,584
Other Financing Sources (Uses):			
Transfer to Capital Project Fund	-	-	-
Transfer from Capital Reserve Fund	-	-	-
Total Financing Sources (Uses)	-	-	-
Fund Balance Appropriated	177,045	-	(177,045)
Revenues and Other Sources Over (Under) Expenditures and Other Financing Uses	\$ -	3,539	\$ 3,539
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Reconciling Items:			
Depreciation		(140,193)	
Capital outlay		17,336	
Increase (decrease) in accounts receivable recognition		1,558	
Change in inventory		3,165	
Change in Net Assets		\$ (114,595)	

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, 2010

	Balance June 30, 2009		Additions and Transfers in		Disposals and Transfers Out		Balance June 30, 2010
	<u> </u>		<u> </u>		<u> </u>		<u> </u>
General Government	\$ 2,517,796	\$	21,687	\$	-	\$	2,539,483
Public Safety	1,057,475		-		-		1,057,475
Street and Sanitation	357,978		38,427		-		396,405
Cultural and Recreational	<u>205,131</u>		<u>4,464</u>		<u>-</u>		<u>209,595</u>
 Total General Fixed Assets	 <u>\$ 4,138,380</u>	 \$	 <u>64,578</u>	 \$	 <u>-</u>	 \$	 <u>4,202,958</u>

TOWN OF BISCOE, NORTH CAROLINASCHEDULE OF AD VALOREM TAXES RECEIVABLE

June 30, 2010

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2009</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2010</u>
2009-2010	\$ -	\$ 621,255	\$ 597,395	\$ 23,860
2008-2009	25,663	196	20,596	5,263
2007-2008	4,806	-	73	4,733
2006-2007	3,864	-	73	3,791
2005-2006	9,874	-	-	9,874
2004-2005	5,201	-	-	5,201
2003-2004	7,654	-	-	7,654
2002-2003	5,697	-	-	5,697
2001-2002	2,659	-	-	2,659
2000-2001	12,478	-	-	12,478
1999-2000	1,247	-	1,247	-
1998-1999	-	-	-	-
	<u>\$ 79,143</u>	<u>\$ 621,451</u>	<u>\$ 619,384</u>	<u>81,210</u>
Less: Allowance for uncollectible accounts: General Fund				<u>9,307</u>
Ad valorem taxes receivable - net				<u>\$ 71,903</u>
Reconciliation with Revenues: Ad valorem taxes - General Fund				\$ 623,013
Reconciling items:				
Interest collected				(3,751)
Discounts allowed				(1,125)
Taxes written off				<u>1,247</u>
Total Collections and Credits				<u>\$ 619,384</u>

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

For the Fiscal Year Ended June 30, 2010

	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	\$ 104,579,138	\$ 0.58	\$ 606,559	\$ 554,176	\$ 52,383
Registered motor vehicles taxed at prior year's rate	645,517	0.58	3,744	-	3,744
Penalties	-		391	391	-
Total Original Levy	<u>105,224,655</u>		<u>610,694</u>	<u>554,567</u>	<u>56,127</u>
Discoveries:					
Current year taxes	1,992,241	0.58	11,555	11,555	-
Penalties	-		11	11	-
Total Discoveries	<u>1,992,241</u>		<u>11,566</u>	<u>11,566</u>	<u>-</u>
Abatements:					
Taxed at current year's rate	(160,000)	0.58	(928)	(352)	(576)
Taxed at prior year's rate	<u>(13,276)</u>	0.58	<u>(77)</u>	<u>-</u>	<u>(77)</u>
Total Abatements	<u>(173,276)</u>		<u>(1,005)</u>	<u>(352)</u>	<u>(653)</u>
Total Property Valuation	<u>\$ 107,043,620</u>				
Net levy			621,255	565,781	55,474
Uncollected taxes at June 30, 2010			<u>(23,860)</u>	<u>(9,926)</u>	<u>(13,934)</u>
Current year's taxes collected			<u>\$ 597,395</u>	<u>\$ 555,855</u>	<u>\$ 41,540</u>
Current levy collection percentage			<u>96.16%</u>	<u>98.25%</u>	<u>74.88%</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, and the aggregate remaining fund information of the Town of Biscoe, North Carolina, as of and for the year ended June 30, 2010, which collectively comprise the Town of Biscoe's basic financial statements, and have issued my report thereon dated November 23, 2010. 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
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 one department in the Town's General Fund 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.

It was also noted that the Town has a deficit fund balance in two capital project funds. The recommendation was made that the Town monitor the projects in order to assess the correction of the deficit fund balances by recognizing income from grant sources and transfers from other funds. The Town agrees with this finding and will monitor the projects more closely in the future. 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 reviews 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 amounts, and the lack of expertise in financial accounting and reporting to be material weaknesses.

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

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.

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 Town, 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

November 23, 2010



MAXTON McDOWELL

Certified Public Accountant

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November 23, 2010

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

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Biscoe, North Carolina for the year ended June 30, 2010. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and, Government Auditing Standards, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated October 26, 2010. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of Biscoe, North Carolina are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the allowance for doubtful accounts is based on historical water and sewer revenues, historical loss levels, and an analysis of the collectibility of individual accounts. I evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

To the Mayor and the Board of Commissioners
Town of Biscoe
Biscoe, North Carolina
Page Two

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

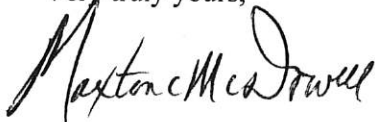
I have requested certain representations from management that are included in the management representation letter dated November 29, 2010.

Other Audit Findings or Issues

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

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

Very truly yours,

A handwritten signature in cursive script that reads "Maxton Mc Dowell". The signature is written in black ink and is positioned above the printed name.

Certified Public Accountant