

TOWN OF BISCOE

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2004

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DIXON HUGHES PLLC

Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

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

We 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 as of and for the year ended June 30, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Biscoe's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, 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, 2004, 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 special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America:

As described in Note 1 to the financial statements, the Town adopted Governmental Accounting Standards Board (GASB) Statement Number 34 during the year ended June 30, 2004.

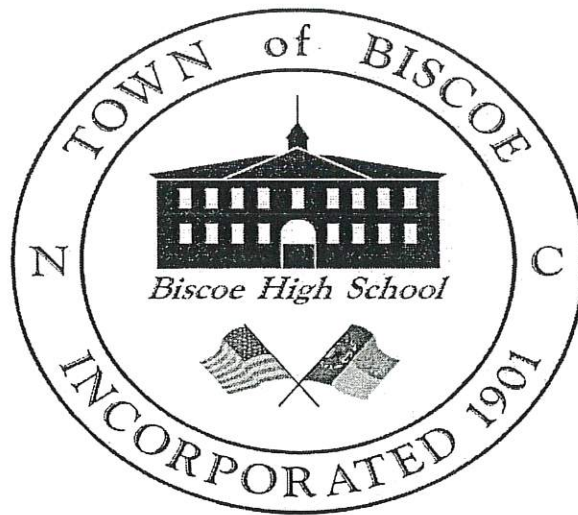
Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards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

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2004 on our consideration of Town of Biscoe's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Town of Biscoe, North Carolina, taken as a whole. The individual fund statements and schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and the State Single Audit Implementation Act 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 our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink, reading "Dixon Hughes Peck". The signature is written in a cursive, flowing style.

November 17, 2004



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Management's Discussion and Analysis

As management of the Town of Biscoe we offer readers of the Town of Biscoe financial statements this narrative overview and analysis of the financial activities of the Town of Biscoe (Town) for the fiscal year ended June 30, 2004. 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 and the transmittal letter which is found in the Introductory Section.

Financial Highlights

- The assets of the Town of Biscoe exceeded its liabilities at the close of the fiscal year by \$7,379,591. The assets of the governmental activities exceeded liabilities by \$3,926,703 and the assets of the business-type activities exceeded liabilities by \$3,452,888.
- The government's total net assets increased by \$166,407, primarily due to positive economic growth.
- As of the close of the current fiscal year, the Town of Biscoe governmental funds reported combined ending fund balances of \$2,566,870 an increase of \$171,680 in comparison with the prior year. Approximately 38 percent of this total amount,

or \$981,316, is available for spending at the government's discretion (*unreserved undesignated fund balance*).

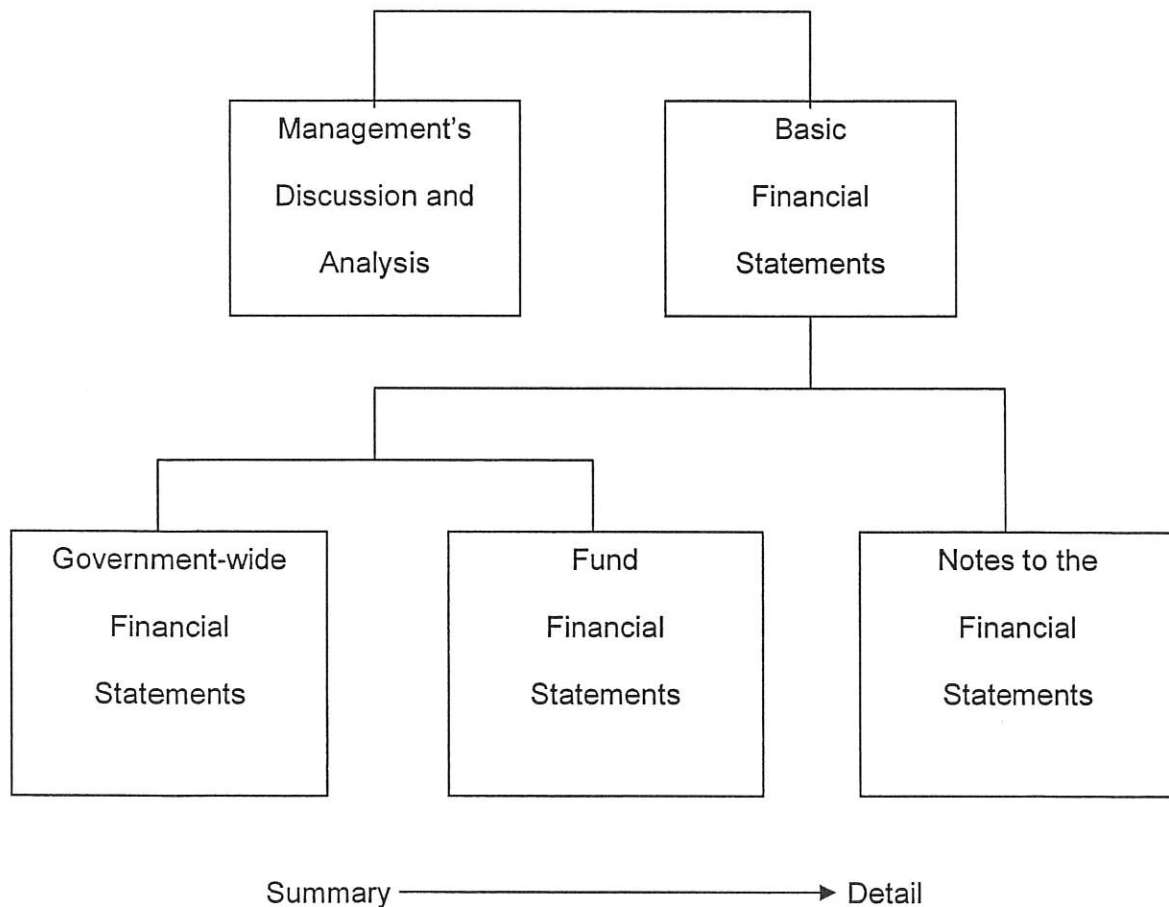
- As of the close of the current fiscal year, the Town's business-type activities reported combined ending net assets of \$3,452,888 an increase of \$76,611. A significant portion of this increase is due to positive economic growth.

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

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes and required supplemental financial data, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

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

The two government-wide statements are the statement of net assets and the statement of activities. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition. Over time, increases or decreases in net assets help determine whether the Town's financial position is improving or deteriorating. The statement of activities presents information which show how the Town's net assets changed during the most recent fiscal year.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, public works, cultural and recreation, 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 28 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 42 of this report.

Government-Wide Financial Analysis of the Town of Biscoe

This is the first year the Town has reported the government-wide financial statements under GASB 34. Prior to implementing GASB 34, the Town maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements in such a way that the total column would represent the overall financial condition of the Town. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, dictated the changes you see in the Town's financial reports.

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 2004	Business-Type Activities 2004	Total 2004
Current and other assets	\$ 2,630,891	\$ 1,530,894	\$ 4,161,785
Capital assets	1,313,429	1,971,714	3,285,143
Total assets	<u>3,944,320</u>	<u>3,502,608</u>	<u>7,446,928</u>
Current liabilities	17,617	40,461	58,078
Long-term liabilities	-	9,259	9,259
Total liabilities	<u>17,617</u>	<u>49,720</u>	<u>67,337</u>
Net assets:			
Invested in capital assets, net of related debt	1,313,429	1,971,714	3,285,143
Unrestricted	2,613,274	1,481,174	4,094,448
Total net assets	<u>\$ 3,926,703</u>	<u>\$ 3,452,888</u>	<u>\$ 7,379,591</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town exceeded liabilities by \$7,379,591 as of June 30, 2004. The Town's net assets increased by \$166,407 for the fiscal year ended June 30, 2004. However, the largest portion (44.52%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town 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. The remaining balance of \$4,094,448 (55.48%) is unrestricted.

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

- Increased sales and service revenue due to economic growth. Actual revenue exceeded the original amount budgeted by \$14,897.
- Increased sales tax revenue due to the economic growth in the Town. Actual revenue exceeded the amount budgeted by \$86,066.

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 2004	Business-Type Activities 2004	Total 2004
Revenues:			
Program revenues:			
Charges for services	\$ 28,899	\$ 636,902	\$ 665,801
Operating grants and contribu	75,885	-	75,885
Capital grants and contributi	-	43,980	43,980
General revenues:			
Property taxes	518,493	-	518,493
Other taxes	488,696	-	488,696
Other	49,416	30,617	80,033
Total revenues	<u>1,161,389</u>	<u>711,499</u>	<u>1,872,888</u>
Expenses:			
General government	328,840	-	328,840
Public safety	422,216	-	422,216
Culture and recreation	50,534	-	50,534
Transportation	270,003	-	270,003
Water and sewer	-	634,888	634,888
Total expenses	<u>1,071,593</u>	<u>634,888</u>	<u>1,706,481</u>
Increase in net assets	89,796	76,611	166,407
Net assets, July 1, as restated	<u>3,836,907</u>	<u>3,376,277</u>	<u>7,213,184</u>
Net assets, June 30	<u>\$ 3,926,703</u>	<u>\$ 3,452,888</u>	<u>\$ 7,379,591</u>

Governmental activities – Governmental activities increased the Town's net assets by \$89,796, thereby accounting for 54% of the total growth in the net assets of the Town. Key elements of this increase are as follows:

- Tax revenue remained steady.
- Local option sales tax increased during the year due to an additional ½ cent sales tax that was effective July 1, 2003. The sales tax was enacted by the North Carolina General Assembly.

Figure 4:

Town of Biscoe
Expenses and Program Revenues-Governmental Activities

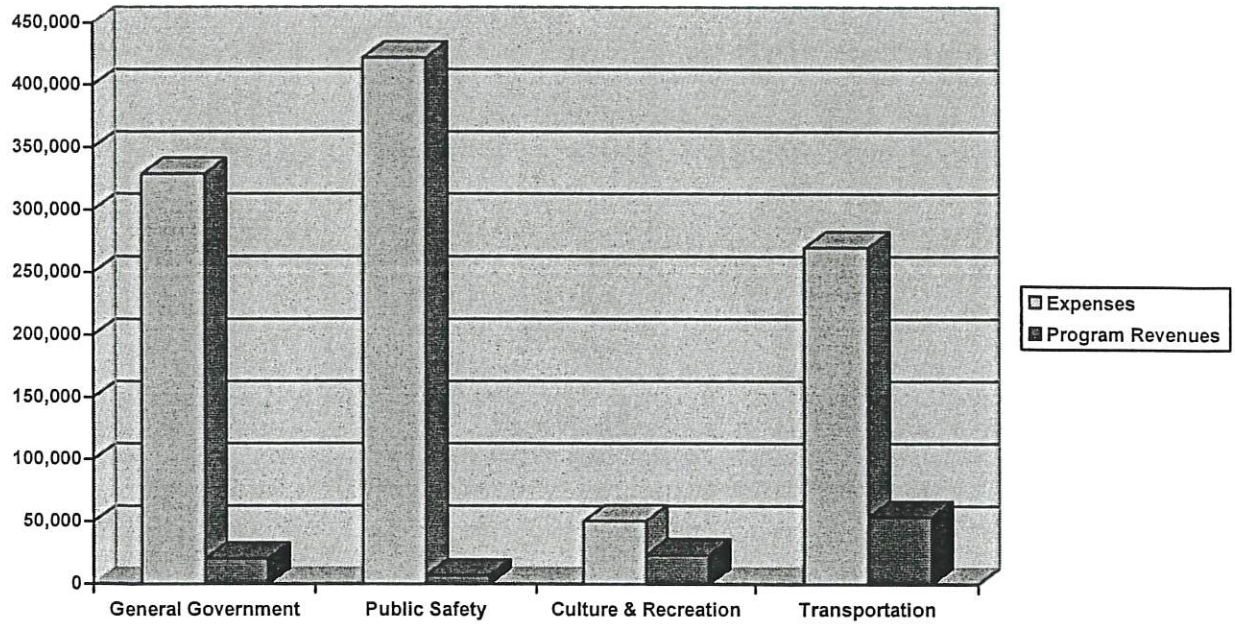
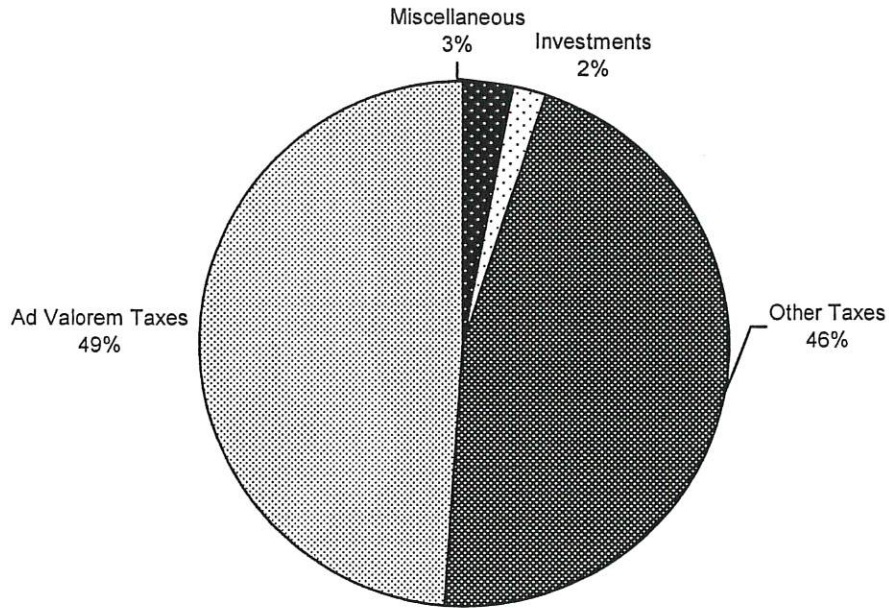


Figure 5:

Town of Biscoe
Revenues by Source – Governmental Activities



Business-type activities: Business-type activities increased the Town's assets by \$76,611 accounting for 46% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Grant monies in the amount of \$45,994 received during the year.
- Water and sewer charges remained steady.

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 \$2,566,870, an increase of \$171,680 in comparison with the prior year. Of this amount, \$981,316, or 38% is unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,071,536 while total fund balance reached \$1,216,199. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 91.6% of total General Fund expenditures, while total fund balance represents 80.7% of that same amount.

General Fund Budgetary Highlights: During the fiscal year, the Town did not revise the budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

The actual operating revenues for the General Fund were greater than the budgeted amount by \$165,420. Ad valorem taxes were \$16,708 less than the budgeted amount due to property value adjustments. Other taxes and licenses were \$86,066 greater than budgeted due to higher than anticipated local option sales tax revenues.

The actual operating expenses for the General Fund were less than the budgeted amount by \$117,518. The most significant savings was realized through efficient spending in the area of transportation expended in the current year.

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 \$1,481,174. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2004, totals \$3,285,143 (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

- Purchase of a new tractor/mower for \$14,720
- Purchases of fire equipment for \$11,500.

Retirements

- Total disposals of \$44,546 due to change in capitalization threshold during the year.

Proprietary Funds:

Additions

- Construction of water/sewer lines costing \$28,110.
- Various equipment costing \$9,453.

Figure 6:

**Town of Biscoe
Capital Assets**

	Town of Biscoe Capital Assets					
	Governmental Activities		Business-type Activities		Total	Total
	2004	2003	2004	2003	2004	2003
Land	\$ 612,201	\$ 612,201	\$ -	\$ -	\$ 612,201	\$ 612,201
Buildings	544,195	589,452	-	-	544,195	589,452
Equipment & vehicles	157,033	193,229	223,270	253,672	380,303	446,901
Water distribution systems	-	-	1,748,444	1,798,720	1,748,444	1,798,720
Total Capital Assets (net of accumulated depreciation)	\$1,313,429	\$1,394,882	\$1,971,714	\$2,052,392	\$3,285,143	\$3,447,274

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

Long-term Debt. As of 1 January 2004, the Town of Biscoe does not have any outstanding long-term debt.

Economic Factors and Next Year's Budget and Rates

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

- The Montgomery County unemployment rate of 5.7% is below the State average of 5.8%.
- Retail sales increased 5.4% over the prior year.

Next Year's Budget Highlights for the Fiscal Year Ending June 30, 2005

Governmental Activities: The governmental fund's primary revenue resources are property taxes and other taxes and licenses. For the fiscal year ending June 30, 2005, the budgeted revenues remained consistent with prior year's actual amounts.

Property taxes and other taxes and licenses are expected to increase 2.6% over the prior year's budget. The majority of the increase in revenues is due to the growth in the ad Valorem tax base. The fiscal year 2004-2005 included a \$.03 tax rate decrease due to the county revaluation.

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

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

Budgeted operating expenses increased 2.1% over the prior fiscal year's budget. Equipment and vehicles will continue to be replaced as needed.

Requests for Information

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

TOWN OF BISCOE
STATEMENT OF NET ASSETS
June 30, 2004

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,513,267	\$ 1,440,719	\$ 3,953,986
Restricted cash and cash equivalents	-	9,259	9,259
Receivables, net:			
Property taxes	45,002	-	45,002
Water and sewer	-	48,712	48,712
Accrued interest	17,283	6,040	23,323
Due from other governmental agencies	55,339	-	55,339
Inventories	-	26,164	26,164
Total current assets	<u>2,630,891</u>	<u>1,530,894</u>	<u>4,161,785</u>
Capital assets:			
Land	612,201	-	612,201
Other capital assets, net of depreciation	<u>701,228</u>	<u>1,971,714</u>	<u>2,672,942</u>
Total assets	<u>1,313,429</u>	<u>1,971,714</u>	<u>3,285,143</u>
Total assets	<u>\$ 3,944,320</u>	<u>\$ 3,502,608</u>	<u>\$ 7,446,928</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	\$ 17,617	\$ 40,461	\$ 58,078
Deposits	-	9,259	9,259
Total liabilities	<u>17,617</u>	<u>49,720</u>	<u>67,337</u>
Net assets:			
Invested in capital assets	1,313,429	1,971,714	3,285,143
Unrestricted	<u>2,613,274</u>	<u>1,481,174</u>	<u>4,094,448</u>
Total net assets	<u>3,926,703</u>	<u>3,452,888</u>	<u>7,379,591</u>
Total liabilities and net assets	<u>\$ 3,944,320</u>	<u>\$ 3,502,608</u>	<u>\$ 7,446,928</u>

TOWN OF BISCOE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Exhibit 2

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Government activities:							
General government	\$ 328,840	\$ 5,405	\$ 15,093	\$ -	\$ (308,342)	\$ -	\$ (308,342)
Public safety	422,216	102	7,095	-	(415,019)	-	(415,019)
Transportation	270,003	-	53,697	-	(216,306)	-	(216,306)
Cultural and recreation	50,534	23,392	-	-	(27,142)	-	(27,142)
Total governmental activities	1,071,593	28,899	75,885	-	(966,809)	-	(966,809)
Business-type activities:							
Water and sewer	634,888	636,902	-	43,980	-	45,994	45,994
Total business-type activities	634,888	636,902	-	43,980	-	45,994	45,994
Total primary government	\$ 1,706,481	\$ 665,801	\$ 75,885	\$ 43,980	(966,809)	45,994	(920,815)
General revenues:							
Ad valorem taxes					518,493		518,493
Local option taxes					300,234		300,234
ABC revenue					2,315		2,315
Other taxes					188,462		188,462
Investment earnings					20,697	12,042	32,739
Miscellaneous					26,404	18,575	44,979
Total general revenues and transfers					1,056,605	30,617	1,087,222
Change in net assets					89,796	76,611	166,407
Net assets beginning of year					3,836,907	3,376,277	7,213,184
Net assets, end of year					\$ 3,926,703	\$ 3,452,888	\$ 7,379,591

See accompanying notes

TOWN OF BISCOE
 BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2004

Exhibit 3

	Major Funds		Total Governmental Funds
	General	Capital Reserve	
ASSETS AND OTHER DEBITS			
ASSETS			
Cash and investments	\$ 1,175,875	\$ 1,337,392	\$ 2,513,267
Receivables, net			
Property taxes	45,002	-	45,002
Accrued interest	4,004	13,279	17,283
Due from other governmental agencies	<u>55,339</u>	<u>-</u>	<u>55,339</u>
	<u>\$ 1,280,220</u>	<u>\$ 1,350,671</u>	<u>\$ 2,630,891</u>
LIABILITIES, EQUITY AND OTHER CREDITS			
LIABILITIES			
Accounts payable and accrued liabilities	\$ 17,617	\$ -	\$ 17,617
Deferred revenues	<u>46,404</u>	<u>-</u>	<u>46,404</u>
Total liabilities	<u>64,021</u>	<u>-</u>	<u>64,021</u>
FUND BALANCES			
Reserved:			
By state statute	59,343	13,279	72,622
Streets - Powell Bill	85,320	-	85,320
Unreserved:			
Designated for subsequent year's expenditures	90,220	62,500	152,720
Designated for capital projects	-	1,274,892	1,274,892
Undesignated	<u>981,316</u>	<u>-</u>	<u>981,316</u>
Total fund balances	<u>1,216,199</u>	<u>1,350,671</u>	2,566,870
Total liabilities and fund balances	<u>\$ 1,280,220</u>	<u>\$ 1,350,671</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the statements, net 1,313,429

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 46,404

Net assets of governmental activities \$ 3,926,703

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	Major Fund		Totals Governmental Funds
	General	Capital Reserve	
REVENUES			
Ad valorem taxes	\$ 520,292	\$ -	\$ 520,292
Other taxes and licenses	307,766	-	307,766
Unrestricted intergovernmental revenues	183,246	-	183,246
Restricted intergovernmental revenues	74,387	-	74,387
Permits and fees	1,002	-	1,002
Sales and services	27,897	-	27,897
Investment earnings	5,398	15,300	20,698
Other	27,903	-	27,903
	<u>1,147,891</u>	<u>15,300</u>	<u>1,163,191</u>
EXPENDITURES			
Current			
General government	269,455	10,029	279,484
Public safety	390,769	-	390,769
Transportation	273,374	-	273,374
Cultural and recreational	47,884	-	47,884
	<u>981,482</u>	<u>10,029</u>	<u>991,511</u>
REVENUES OVER EXPENDITURES	<u>166,409</u>	<u>5,271</u>	<u>171,680</u>
FUND BALANCE, BEGINNING OF YEAR, JULY 1	<u>1,049,790</u>	<u>1,345,400</u>	<u>2,395,190</u>
FUND BALANCE, END OF YEAR, JUNE 30	<u>\$ 1,216,199</u>	<u>\$ 1,350,671</u>	<u>\$ 2,566,870</u>

TOWN OF BISCOE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS (CONTINUED)
For the Year Ended June 30, 2004

Exhibit 5

Reconciliation of net change in fund balance in the statement of revenues, expenditures, and changes in fund balances - governmental funds to change in net assets - governmental activities

Net changes in fund balances - total governmental funds \$ 171,680

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 depreciation exceeded capital outlay in the current period (80,084)

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

Taxes including interest and penalties (1,800)

Total change in net assets of governmental activities \$ 89,796

TOWN OF BISCOE
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUND
 For the Year Ended June 30, 2004

	General Fund				Capital Reserve Fund				Variance With Final Budget favorable (unfavorable)
	Budget	Final	Actual	Variance With Final Budget favorable (unfavorable)	Budget	Final	Actual	Variance With Final Budget favorable (unfavorable)	
REVENUES									
Ad valorem taxes	\$ 537,000	\$ 537,000	\$ 520,292	\$ (16,708)	\$ -	\$ -	\$ -	\$ -	
Other taxes and licenses	221,700	221,700	307,766	86,066	-	-	-	-	
Unrestricted intergovernmental revenues	111,800	111,800	183,246	71,446	-	-	-	-	
Restricted intergovernmental revenues	63,921	63,921	74,387	10,466	-	-	-	-	
Permits and fees	1,400	1,400	1,002	(398)	-	-	-	-	
Sales and services	13,000	13,000	27,897	14,897	-	-	-	-	
Investment earnings	13,150	13,150	5,398	(7,752)	35,000	35,000	15,300	(19,700)	
Other	20,500	20,500	27,903	7,403	-	-	-	-	
	<u>982,471</u>	<u>982,471</u>	<u>1,147,891</u>	<u>165,420</u>	<u>35,000</u>	<u>35,000</u>	<u>15,300</u>	<u>(19,700)</u>	
EXPENDITURES									
Current									
General government	289,250	289,250	269,455	19,795	20,000	20,000	10,029	9,971	
Public safety	410,400	410,400	390,769	19,631	-	-	-	-	
Transportation	350,850	350,850	273,374	77,476	-	-	-	-	
Cultural and recreational	48,500	48,500	47,884	616	-	-	-	-	
	<u>1,099,000</u>	<u>1,099,000</u>	<u>981,482</u>	<u>117,518</u>	<u>20,000</u>	<u>20,000</u>	<u>10,029</u>	<u>9,971</u>	
REVENUES OVER (UNDER) EXPENDITURES	(116,529)	(116,529)	166,409	282,938	15,000	15,000	5,271	(9,729)	
Other Financing (Uses):									
Transfers to other funds	-	-	-	-	(15,000)	(15,000)	-	15,000	
REVENUES AND OTHER FINANCING (USES) OVER (UNDER) EXPENDITURES	(116,529)	(116,529)	166,409	282,938	-	-	5,271	5,271	
APPROPRIATED FUND BALANCE	116,529	116,529	-	(116,529)	-	-	-	-	
REVENUES, OTHER FINANCING (USES), AND APPROPRIATED FUND BALANCE OVER EXPENDITURES AND OTHER FINANCING (USES)	\$ -	\$ -	166,409	\$ 166,409	\$ -	\$ -	5,271	\$ 5,271	
FUND BALANCE, BEGINNING OF YEAR, JULY 1			<u>1,049,790</u>				<u>1,345,400</u>		
FUND BALANCE, END OF YEAR, JUNE 30			<u>\$ 1,216,199</u>				<u>\$ 1,350,671</u>		

TOWN OF BISCOE
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
June 30, 2004

Exhibit 7

	Business-type Activities - Enterprise Major Fund
	Water and Sewer
ASSETS	
Current assets:	
Cash and cash equivalents/investments	\$ 1,440,719
Restricted cash and investments	9,259
Receivables, net:	
Water and sewer	48,712
Accrued interest	6,040
Inventories	<u>26,164</u>
Total current assets	<u>1,530,894</u>
Capital assets:	
Other capital assets, net of depreciation	<u>1,971,714</u>
	<u>1,971,714</u>
Total assets	<u>\$ 3,502,608</u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 40,461
Customer deposits	<u>9,259</u>
Total liabilities	<u>49,720</u>
Net assets:	
Invested in capital assets	1,971,714
Unrestricted	<u>1,481,174</u>
Total net assets	<u>3,452,888</u>
Total liabilities and net assets	<u>\$ 3,502,608</u>

TOWN OF BISCOE
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2004

Exhibit 8

	<u>Major Fund</u>
	<u>Water and Sewer</u>
OPERATING REVENUES	
Charges for sales and services	\$ 636,902
Total operating revenues	<u>636,902</u>
OPERATING EXPENSES	
Water and sewer operations	516,647
Depreciation	<u>118,241</u>
Total operating expenses	<u>634,888</u>
INCOME FROM OPERATIONS	<u>2,014</u>
NONOPERATING REVENUES	
Interest on investments	12,042
Grant funds	43,980
Tax refunds	11,917
Miscellaneous	<u>6,658</u>
Total nonoperating revenues	<u>74,597</u>
NET INCOME	76,611
NET ASSETS, BEGINNING OF YEAR, JULY 1	<u>3,376,277</u>
NET ASSETS, JUNE 30	<u>\$ 3,452,888</u>

TOWN OF BISCOE
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2004

Exhibit 9

	<u>Major Fund</u>
	<u>Water and Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers and users	\$ 643,403
Cash paid for goods and services	(402,630)
Cash paid to employees	(87,867)
Net (decrease) customer deposits	<u>(50)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>152,856</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(37,563)
Grant funds	43,980
Tax refunds	11,917
Miscellaneous	<u>6,658</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>24,992</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>12,892</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>12,892</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	190,740
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,259,238</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,449,978</u>

Continued on next page

TOWN OF BISCOE
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2004

Exhibit 9
(con't)

	<u>Major Fund</u>
	<u>Water and Sewer</u>
**Cash and Investments per Exhibit 7	
Unrestricted	\$ 1,440,719
Restricted	<u>9,259</u>
TOTAL	<u>\$ 1,449,978</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 2,014
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	118,241
Change in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	6,501
Inventory	8,190
Increase (decrease) in:	
Accounts payable and accrued liabilities	17,960
Customer deposits	<u>(50)</u>
Total adjustments	<u>150,842</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 152,856</u>

TOWN OF BISCOE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

Exhibit 10

	<u>Pension Trust Fund</u>
	<u>Special Separation Allowance Fund</u>
ASSETS	
Cash and investments	\$ 49,303
Accrued interest	479
	<hr/>
	\$ 49,782
	<hr/>
NET ASSETS	
Reserved for employees' pension benefits	\$ 49,782
	<hr/>

TOWN OF BISCOE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2004

Exhibit 11

	<u>Pension Trust Fund</u>
	<u>Special Separation Allowance Fund</u>
Additions:	
Investment earnings	<u>\$ 575</u>
Net Increase	575
Net assets, beginning of year	<u>49,207</u>
Net assets, end of year	<u><u>\$ 49,782</u></u>

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

I. 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:

A. 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, 2004, no component units were included in the financial statements.

B. Basis of Presentation - Fund Accounting

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

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

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

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

The Town reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and State-shared revenues. The primary expenditures are for public safety, streets and highways, transportation, and general government services.

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

The Town reports the following major enterprise funds:

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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.

C. Measurement Focus and Basis of Accounting

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

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange 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.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the subsequent year. Also as of January 1, 1993, State Law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change, 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 2003 through February 2004 apply to the fiscal year ended June 30, 2004. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1 through the fiscal year-end apply to the 2004-2005 fiscal year and are not shown as receivables at June 30, 2004. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2004 because they are intended to finance the Town's operations during the 2004-2005 fiscal year.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Sales taxes and certain intergovernmental revenues, such as 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 deferred 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 City 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.

D. Budgetary Data

The Town's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the General Fund, Capital Reserve Fund, and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. The Town Finance Officer is authorized to transfer appropriations between functional areas within a fund up to \$1,000; however, any revisions that alter the total expenditures of any fund or that changes functional appropriations by more than \$1,000 must be approved by the governing board. No amendments were made during the year to the original budget.

A budget calendar is included in the North Carolina General Statutes which prescribes the last day on which certain steps of that budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

April 30 - Each department head will transmit to the budget officer the budget requests and the revenue estimates for their department for the budget year.

June 1 - The budget and the budget message shall be submitted to the governing board. The public hearing on the budget shall be scheduled at this time.

July 1 - The budget ordinance shall be adopted by the governing board.

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. Assets, Liabilities and Fund Equity

Deposits and Investments

1. Deposits

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

4. Ad Valorem Taxes Receivable

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

5. 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.

6. Inventories

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 and is recorded as an expenditure as it is consumed.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

Deposits and Investments (Continued)

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 an estimated useful life in excess of two years. 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 the 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.

In July 2003, the Town increased its capitalization policy to \$1,000 to improve the efficiency in keeping the accounting records.

Buildings	29 years
Furniture and office equipment	7-10 years
Maintenance and construction equipment	5-7 years
Medium and heavy motor vehicles	5-7 years
Automobiles and light trucks	3-5 years

8. Compensated Absences

The policies of the Town provide for no accumulation of earned vacation as of June 30, 2004.

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

9. 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 or fund equity 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 these amounts stand at the close of the fiscal year preceding the budget year.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

Deposits and Investments (Continued)

9. Net Assets/Fund Balances (Continued)

The governmental fund types classify fund balances as follows:

Reserved:

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

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

Unreserved:

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation which has been designated for the adopted 2004-2005 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 which is uncommitted at year-end.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Material Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

Expenditures of on-behalf payments are not considered to be violations of state statute budget requirements (see Note III, D).

III. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agent in the Town's 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 agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

III. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

A. Assets (Continued)

1. Deposits (Continued)

deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2004, the Town's deposits had a carrying amount of \$4,005,788 and a bank balance of \$4,036,142. Of the bank balance, \$140,861 was covered by federal depository insurance, and \$3,895,281 was covered by collateral held by authorized escrow agents in the name of the Town. At June 30, 2004, the Town's petty cash fund totaled \$6,760

2. 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:

<u>Fund</u>	<u>June 30, 2004</u>
General Fund:	
Taxes receivable	\$ 2,431
Enterprise Funds	
Accounts receivable	<u>6,000</u>
	<u>\$ 8,431</u>

3. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2004, is as follows:

	<u>Beginning Balances</u>	<u>Cumulative Effect-Change in Application of Capitalization Policy</u>	<u>Increases</u>	<u>Ending Balances</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 612,201	\$ -	\$ -	\$ 612,201
Total capital assets not being depreciated	<u>612,201</u>	<u>-</u>	<u>-</u>	<u>612,201</u>

TOWN OF BISCOE, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2004

III. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

A. Assets (Continued)

3. Capital Assets (Continued)

	<u>Beginning Balances</u>	<u>Cumulative Effect-Change in Application of Capitalization Policy</u>	<u>Increases</u>	<u>Ending Balances</u>
Capital assets being depreciated				
Buildings	\$ 1,797,984	\$ (66)	\$ -	\$ 1,797,918
Equipment	430,798	(44,480)	11,500	397,818
Vehicles and motorized equipment	<u>483,736</u>	<u>-</u>	<u>14,720</u>	<u>498,456</u>
Total capital assets being depreciated	<u>2,712,518</u>	<u>(44,546)</u>	<u>26,220</u>	<u>2,694,192</u>
Less accumulated depreciation for:				
Buildings	1,208,532	-	45,191	1,253,723
Equipment	334,532	(43,177)	34,573	325,928
Vehicles and motorized equipment	<u>386,773</u>	<u>-</u>	<u>26,540</u>	<u>413,313</u>
Total accumulated depreciation	<u>1,929,837</u>	<u>\$ (43,177)</u>	<u>\$ 106,304</u>	<u>1,992,964</u>
Total capital assets being depreciated, net	<u>782,681</u>			<u>701,228</u>
Governmental activity capital assets, net	<u>\$ 1,394,882</u>			<u>\$ 1,313,429</u>

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

General government	\$ 49,357
Public safety	42,948
Transportation	11,349
Cultural and recreational	<u>2,650</u>
Total depreciation expense	<u>\$ 106,304</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Ending Balances</u>
Water and Sewer Fund			
Capital assets being depreciated			
Plant and distribution systems	\$ 3,142,540	\$ 28,110	\$ 3,170,650
Furniture and maintenance equipment	355,981	9,453	365,434
Vehicles	<u>93,709</u>	<u>-</u>	<u>93,709</u>
Total capital assets being depreciated	<u>3,592,230</u>	<u>37,563</u>	<u>3,629,793</u>
Less accumulated depreciation for:			
Plant and distribution systems	1,343,820	78,386	1,422,206
Furniture and maintenance equipment	114,010	34,841	148,851
Vehicles	<u>82,008</u>	<u>5,014</u>	<u>87,022</u>
Total accumulated depreciation	<u>1,539,838</u>	<u>\$ 118,241</u>	<u>1,658,079</u>
Business-type activities capital assets, net	<u>\$ 2,052,392</u>		<u>\$ 1,971,714</u>

III. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

3. Capital Assets

B. Liabilities

1. Pension Plan Obligations

a. 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 covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the rate for employees not engaged in law enforcement and for law enforcement officers is 10.29% and 10.27%, respectively, of annual covered payroll for the year ending June 30, 2004. The contribution requirements of member of the Town of Biscoe is established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for years ended June 30, 2004, 2003, and 2002 were \$43,880, \$39,910, and \$47,210, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

Plan Description

The Town of Biscoe administers a public employee retirement system (the "Separation Allowance"), a single-employer retirement 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.

III. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

3. Capital Assets (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

Plan Description (Continued)

All full-time law enforcement officers of the Town are covered by the Separation allowance. At December 31, 2003 the Separation Allowance's membership consisted of:

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

Summary of Significant Accounting Policies

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

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

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the Town contributed \$5,125, or 2.65% 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.

The annual required contribution for the current year was determined as part of the December 31, 2003 actuarial valuation using the aggregate method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.9% – 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases.

III. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

3. Capital Assets (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

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:

Annual required contribution	\$ 5,125
Interest on net pension obligation	192
Adjustment to annual required contribution	(145)
Annual pension cost	<u>5,172</u>
Contributions made	<u>5,125</u>
Increase (decrease) in net pension obligation	47
Net pension obligation beginning of fiscal year	<u>2,651</u>
 Net pension obligation end of fiscal year	 <u>\$ 2,698</u>

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6-30-02	\$ 4,891	51.11%	\$ 2,391
6-30-03	5,160	94.96	2,651
6-30-04	5,172	99.09	2,698

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

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, 2004 were \$19,941, which consisted of \$14,736 from the Town and \$5,205 from the law enforcement officers.

III. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

3. Capital Assets (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. 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 nonemployer contributor, funds the plan through appropriations. Contribution requirements of plan members and the State of North Carolina are established and may be amended by North Carolina General Assembly.

e. Postemployment Benefits

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

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$20,000. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2004, the Town made contributions to the State for death benefits of \$280. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

III. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

3. Capital Assets (Continued)

B. Liabilities (Continued)

2. Deferred Revenues

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

	<u>General Fund</u>
Prepaid taxes not yet earned	\$ 1,402
Taxes receivable	<u>47,433</u>
Total deferred revenues	<u>\$ 48,835</u>

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, worker's compensation coverage up to the statutory limits, and employee health coverage up to \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property liability in excess of \$500,000, and \$300,000 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.

4. Long-term Debt

At June 30, 2004, the Town had a legal debt margin of approximately \$6,915,935.

5. Revenues, Expenditures, and Expenses

On-behalf of payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2004, the Town of Biscoe recognized on-behalf of payments for pension contributions made by the State as a revenue and an expenditure of \$5,597 for the 29 volunteer firemen who perform firefighting duties for the Town's fire department. The volunteers elected to be members of the Firemen and Rescue Squad Worker's Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2004

IV. 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, 2004. Complete financial statements for the Montgomery Municipal Board of Alcoholic Beverage can be obtained at the ABC's offices at P. O. Box 279, Biscoe, NC 27209.

V. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Town has received proceeds from several 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 moneys 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 moneys.

**REQUIRED SUPPLEMENTAL
FINANCIAL DATA**

**TOWN OF BISCOE, NORTH CAROLINA
 LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS**

Statement 1

<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 % of covered payroll ((b - a)/c)</u>
12-31-99*	N/A	N/A	N/A	N/A	N/A	N/A
12-31-00	\$ 37,616	\$ 54,666	\$17,050	68.81%	\$ 203,443	8.38%
12-31-01	42,045	62,708	20,663	67.05%	187,336	11.03%
12-31-02	42,799	64,932	22,133	65.91%	196,508	11.26%
12-31-03	49,001	72,303	23,302	67.77%	193,497	12.04%

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

TOWN OF BISCOE, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Statement 2

<u>Year ended June 30</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
2000*	N/A	N/A
2001*	N/A	N/A
2002	\$ 4,891	51%
2003	5,160	94.96%
2004	5,172	99.09%

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

**TOWN OF BISCOE, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE REQUIRED SCHEDULES**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12-31-03
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	27 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.9 – 9.8%
Includes inflation at	3.75%
Cost of living adjustments	N/A

INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

**TOWN OF BISCOE
GENERAL FUND
BALANCE SHEET
June 30, 2004**

ASSETS	<u>2004</u>
Cash and investments	\$ 1,175,875
Receivables, net	
Property taxes	45,002
Accrued interest receivable	4,004
Due from other governmental agencies	<u>55,339</u>
	<u>\$ 1,280,220</u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable and accrued liabilities	\$ 17,617
Deferred revenues	<u>46,404</u>
Total liabilities	<u>64,021</u>
 FUND BALANCE	
Reserved:	
By state statute	59,343
Streets - Powell Bill	85,320
Unreserved:	
Designated for subsequent years' expenditures	90,220
Undesignated	<u>981,316</u>
Total fund balances	<u>1,216,199</u>
	<u>\$ 1,280,220</u>

TOWN OF BISCOE

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

Page 1 of 3

For the Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
REVENUES			
Ad valorem taxes			
Current year		\$ 513,731	
Prior years		4,109	
Penalties and interest		2,452	
	<u>\$ 537,000</u>	<u>520,292</u>	<u>\$ (16,708)</u>
Other taxes and licenses			
ABC mixed beverage		2,315	
Local option sales tax		300,234	
Cablevision franchise fee		4,246	
Other taxes		971	
	<u>221,700</u>	<u>307,766</u>	<u>86,066</u>
Unrestricted intergovernmental revenues			
Franchise tax		160,355	
Beer and wine		7,503	
Tax refunds		15,388	
	<u>111,800</u>	<u>183,246</u>	<u>71,446</u>
Restricted intergovernmental revenues			
Powell Bill allocation		53,697	
Grant funds		15,093	
On-behalf of payments - Fire		5,597	
	<u>63,921</u>	<u>74,387</u>	<u>10,466</u>
Permits and fees	<u>1,400</u>	<u>1,002</u>	<u>(398)</u>
Sales and services			
Cemetery plots		4,505	
Park fees and concessions		23,392	
	<u>13,000</u>	<u>27,897</u>	<u>14,897</u>
Investment earnings	<u>13,150</u>	<u>5,398</u>	<u>(7,752)</u>
Other			
Donations		500	
Drug seizures		1,499	
Gain on sale of land		15,000	
Miscellaneous		10,904	
	<u>20,500</u>	<u>27,903</u>	<u>7,403</u>
TOTAL REVENUES	<u>982,471</u>	<u>1,147,891</u>	<u>165,420</u>

TOWN OF BISCOE

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For the Year Ended June 30, 2004

Page 2 of 3

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
EXPENDITURES			
General government			
Administration			
Salaries and employee benefits		\$ 119,109	
Operating expenditures		97,990	
	<u>\$ 221,250</u>	<u>217,099</u>	<u>\$ 4,151</u>
Legal and professional services			
Operating expenditures	<u>18,500</u>	<u>15,064</u>	<u>3,436</u>
Public buildings and grounds			
Operating expenditures	<u>49,500</u>	<u>37,292</u>	<u>12,208</u>
TOTAL GENERAL GOVERNMENT	<u>289,250</u>	<u>269,455</u>	<u>19,795</u>
Public safety			
Police			
Salaries and employee benefits		303,429	
Operating expenditures		45,714	
	<u>369,850</u>	<u>349,143</u>	<u>20,707</u>
Fire			
Salaries and employee benefits		2,799	
Operating expenditures		21,730	
Capital outlay		11,500	
	<u>40,550</u>	<u>36,029</u>	<u>4,521</u>
On-behalf of payments	<u>-</u>	<u>5,597</u>	<u>(5,597)</u>
TOTAL PUBLIC SAFETY	<u>410,400</u>	<u>390,769</u>	<u>19,631</u>

TOWN OF BISCOE
GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
EXPENDITURES (Continued)			
Transportation			
Streets and roads			
Salaries and employee benefits		\$ 83,879	
Operating expenditures		120,405	
Capital outlay		3,700	
	<u>\$ 224,350</u>	<u>207,984</u>	<u>\$ 16,366</u>
Powell Bill			
Salaries and employee benefits		1,144	
Operating expenses		53,226	
Capital outlay		11,020	
	<u>126,500</u>	<u>65,390</u>	<u>61,110</u>
TOTAL TRANSPORTATION	<u>350,850</u>	<u>273,374</u>	<u>77,476</u>
Cultural and recreational			
Recreation			
Salaries and employee benefits		19,716	
Operating expenditures		28,168	
	<u>48,500</u>	<u>47,884</u>	<u>616</u>
TOTAL CULTURAL AND RECREATIONAL	<u>48,500</u>	<u>47,884</u>	<u>616</u>
TOTAL EXPENDITURES	<u>1,099,000</u>	<u>981,482</u>	<u>117,518</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(116,529)</u>	<u>166,409</u>	<u>282,938</u>
FUND BALANCE APPROPRIATED	<u>116,529</u>	<u>-</u>	<u>(116,529)</u>
REVENUES AND APPROPRIATED FUND BALANCE OVER EXPENDITURES	<u>\$ -</u>	<u>166,409</u>	<u>\$ 166,409</u>
FUND BALANCE, BEGINNING OF YEAR, JULY 1		<u>1,049,790</u>	
FUND BALANCE, END OF YEAR, JUNE 30		<u>\$ 1,216,199</u>	

**TOWN OF BISCOE
 CAPITAL RESERVE SPECIAL REVENUE FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2004**

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
REVENUES			
Investment earnings	\$ 35,000	\$ 15,300	\$ 19,700
TOTAL REVENUES	<u>35,000</u>	<u>15,300</u>	<u>19,700</u>
EXPENDITURES			
Miscellaneous	20,000	10,029	9,971
TOTAL EXPENDITURES	<u>20,000</u>	<u>10,029</u>	<u>9,971</u>
REVENUES OVER EXPENDITURES	<u>15,000</u>	<u>5,271</u>	<u>9,729</u>
Other Financing (Uses):			
Transfers to other funds:			
Water and Sewer Fund	(15,000)	-	(15,000)
Total other financing (uses)	<u>(15,000)</u>	<u>-</u>	<u>(15,000)</u>
REVENUES AND OTHER FINANCING (USES) OVER EXPENDITURES	<u>\$ -</u>	5,271	<u>\$ (5,271)</u>
FUND BALANCE, BEGINNING OF YEAR, JULY 1		<u>1,345,400</u>	
FUND BALANCE, END OF YEAR, JUNE 30		<u>\$ 1,350,671</u>	

TOWN OF BISCOE
WATER AND SEWER FUND
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
REVENUES			
Operating revenues			
Charges for services	\$ 612,750	\$ 636,902	\$ 24,152
TOTAL OPERATING REVENUES	<u>612,750</u>	<u>636,902</u>	<u>24,152</u>
Nonoperating revenues			
Interest on investments		12,042	
Grant funds		43,980	
Tax refunds		11,917	
Miscellaneous		6,658	
TOTAL NON-OPERATING REVENUES	<u>21,500</u>	<u>74,597</u>	<u>53,097</u>
TOTAL REVENUES	<u>634,250</u>	<u>711,499</u>	<u>77,249</u>
EXPENDITURES			
Water and sewer operations			
Salaries and employee benefits		87,868	
Operating expenditures		260,719	
Water purchased		168,060	
Capital Outlay		37,563	
TOTAL EXPENDITURES	<u>683,400</u>	<u>554,210</u>	<u>129,190</u>
REVENUES OVER (UNDER) EXPENDITURES	(49,150)	157,289	206,439
APPROPRIATED RETAINED EARNINGS	<u>49,150</u>	<u>-</u>	<u>(49,150)</u>
REVENUES AND APPROPRIATED RETAINED EARNINGS OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ 157,289</u>	<u>\$ 157,289</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS:			
Revenues over expenditures		\$ 157,289	
Depreciation		(118,241)	
Capital outlay		37,563	
NET INCOME		<u>\$ 76,611</u>	

OTHER SCHEDULES

TOWN OF BISCOE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
June 30, 2004

	Balance June 30, 2003	Additions and Transfers in	Disposals and Transfers out	Balance June 30, 2004
General Government	\$ 2,466,262	\$ -	\$ (19,969)	\$ 2,446,293
Public Safety	661,541	16,499	(26,461)	651,579
Street and sanitation	100,798	14,720	(3,155)	112,363
Cultural and Recreation	96,157	-	-	96,157
 Total general fixed assets	 <u>\$ 3,324,758</u>	 <u>\$ 31,219</u>	 <u>\$ (49,585)</u>	 <u>\$ 3,306,392</u>

Note: Amounts presented above exclude accumulated depreciation.

TOWN OF BISCOE
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
Year Ended June 30, 2004

	Uncollected Balance June 30, 2003	Additions	Collections and Credits	Uncollected Balance June 30, 2004
2003-2004	\$ -	\$ 519,170	\$ 501,844	\$ 17,326
2002-2003	19,629	-	12,576	7,053
2001-2002	4,483	-	1,299	3,184
2000-2001	14,203	-	1,406	12,797
1999-2000	1,378	-	-	1,378
1998-1999	1,947	-	137	1,810
1997-1998	1,062	-	-	1,062
1996-1997	774	-	-	774
1995-1996	1,108	-	-	1,108
1994-1995	941	-	-	941
1993-1994	644	-	644	-
	<u>\$ 46,169</u>	<u>\$ 519,170</u>	<u>\$ 517,906</u>	47,433
Allowance for uncollectible ad valorem taxes receivable				<u>(2,431)</u>
Ad valorem taxes receivable, net				<u>\$ 45,002</u>
Reconcilement with revenue:				
Taxes				\$ 520,292
Penalties and interest				(2,452)
Amounts written off per state statute				644
Miscellaneous adjustments				<u>(578)</u>
Total collections and credits				<u>\$ 517,906</u>

TOWN OF BISCOE
ANALYSIS OF CURRENT TAX LEVY
Year Ended June 30, 2004

	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:	\$ 82,515,110	\$ 0.60	\$ 495,091	\$ 458,645	\$ 36,446
Registered motor vehicles taxed at prior year's rate	<u>2,817,423</u>	0.62	<u>17,468</u>	<u>-</u>	<u>17,468</u>
Total	85,332,533		512,559	458,645	53,914
Discoveries	1,563,092	\$ 0.60	9,379	9,379	-
Abatements	<u>(446,434)</u>	0.62	<u>(2,768)</u>	<u>(1,728)</u>	<u>(1,040)</u>
TOTAL PROPERTY VALUATION	<u>\$ 86,449,191</u>				
Net levy			519,170	466,296	52,874
Uncollected taxes at June 30, 2004			<u>17,326</u>	<u>7,146</u>	<u>10,180</u>
Current year's taxes collected			<u>\$ 501,844</u>	<u>\$ 459,150</u>	<u>\$ 42,694</u>
Percent of current year taxes collected			<u>96.66%</u>	<u>98.47%</u>	<u>80.75%</u>

COMPLIANCE SECTION



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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

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

We 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, as of and for the year ended June 30, 2004, which collectively comprise the Town of Biscoe basic financial statements and have issued our report thereon dated November 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Biscoe's' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town of Biscoe's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Town of Biscoe's' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Mayor, management, others within the organization, members of Town Council, and federal and State awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Dexter Hughes Peck

November 17, 2004

TOWN OF BISCOE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2004

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Reportable condition(s) identified that are not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted	No

II. FINANCIAL STATEMENT FINDINGS

Reportable Conditions

FINDING: 04-1

Internal Controls

Criteria:	Internal controls are enhanced when the responsibility for executing a transaction, recording the transaction, and maintaining custody of the assets resulting from the transaction are assigned to different individuals.
Condition:	We noticed a lack of segregation of duties due to the small number of employees. Internal controls are enhanced when the responsibility for executing a transaction, recording the transaction, and maintaining custody of the assets resulting from the transaction are assigned to different individuals.
Effect:	While it may be convenient to have one person perform all of the functions noted above, such a situation does not provide the ideal internal control structure.
Cause:	The Town has a small number of employees, resulting in difficulty in achieving adequate segregation of duties.
Management response:	Agreed

TOWN OF BISCOE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2004

None reported.

TOWN OF Biscoe
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2004

<u>Grantor/pass through grantor/program title expenditures</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>	<u>State expenditures</u>
Federal Grants:			
Cash Programs:			
<u>U.S. Department of Homeland Security</u>			
Direct Program:			
Passed through Montgomery County			
State Homeland Security Grant	97.004	\$ 10,000	\$ -
Total assistance - federal programs		<u>10,000</u>	<u>-</u>
State Grants:			
Cash Programs:			
<u>N. C. Rural Economic Development Center:</u>			
Sewer Infiltration and Inflow Study		-	34,000
Town of Biscoe Regional Wastewater Treatment Feasibility Study		-	9,980
<u>N. C. Department of Transportation:</u>			
Powell Bill		<u>-</u>	<u>65,632</u>
Total assistance - state programs		<u>10,000</u>	<u>109,612</u>
TOTAL ASSISTANCE		<u>\$ 10,000</u>	<u>\$ 109,612</u>

TOWN OF BISCOE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2004

NOTES TO THE SCHEDULE OF FEDERAL AND STATE FINANCIAL AWARDS:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town of Biscoe is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

November 17, 2004

Board of Commissioners
Town of Biscoe
Biscoe, North Carolina

We are pleased to have served as independent auditors for the Town of Biscoe.

In planning and performing our audit of the financial statements of Town of Biscoe for the year ended June 30, 2004, we considered the Town's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented here for your consideration.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Prior Year Comments:

Reconciliation of Cash and Due from Central Depository

During our current and previous audits, we noticed cash accounts were being reconciled on a monthly basis, but did not tie to the Town's General Ledger. We also noticed that the Town's due from central depository accounts were not being properly reconciled to the cash accounts on a regular basis. We recommend the Town's General Ledger be properly maintained and adjusted to reflect all changes in cash and all due from central depository and investment accounts. Being able to identify available cash from the General Ledger is an important tool in managing the operations of the Town.

Current Year Comments:

Budget Amendments

During the current year audit, it was noted that the Town received \$5,000 from the fire department to cover the cost of equipment that would later be reimbursed by grant money. This payment was then applied against the expenditure account so that the department did not go over budget. This transaction was incorrectly posted. The money the Town received was later reclassified as revenue and the full amount of the equipment expense was properly charged to the expenditure account. In addition, this transaction created a payable on the Town's books to the Fire Department and a Receivable from the County for the grant proceeds and did not decrease the chance of the department going over budget. We recommend that in the future the Town record a budget amendment to record the grant revenue and increase the department's budget for the expected costs.

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Capital Assets

During the current year it was noted that the Town recorded buildings and land as one asset in their capital assets software. With the implementation of GASB 34 during the current year, the Town is now required to depreciate their general capital assets. Land is a non-depreciable asset, however the Town does not have good records to support the cost basis of these assets and what portion actually is contributed to land and therefore should not be depreciated. In addition the Town sold a portion of land that they owned during the current year but could not clearly identify which asset on their capital asset listing was actually sold and therefore could not provide us with a cost basis. We recommend that the Town update their capital assets records to properly reflect assets owned by the Town, to record land and buildings separately, and to maintain better supporting documentation to support the cost basis.

Inventory

During the current year, we noted that the inventory count was not actually performed until we arrived for fieldwork. We also noted that the client did not maintain adequate records to support the cost basis of the inventory and ended up obtaining current price listings from a vendor. We recommend that the Town perform an annual inventory count on June 30th and to use the last price paid for the inventory per their last invoice. This will better reflect what the Town paid for the Inventory and what inventory was on hand as of June 30th.

Capital Reserve Fund

During the current year, we noted that the Town budgeted and purchased several new computers and equipment out of the Capital Reserve Special Revenue Fund. Special Revenue Funds typically do not budget and expense capital outlay. The Town should have budgeted a transfer of funds from the Capital Reserve Fund to the General Fund and then budget the capital outlay expenditure out of the General Fund.

Journal Entries

During the current year, the Town was unable to locate supporting documentation to support several journal entries that were posted during the current year and in some cases the Town was unable to locate a copy of the actual journal entry posted. In addition, the system does not allow a description to be keyed into the system as to why the entry was posted nor is any description written on the copy of the entry and maintained in the journal entry book. We recommend that the Town establish procedures to ensure that all journal entries along with supporting documentation are filed in one central location and that a detailed description is written on the journal entry to document the reason why the entry was posted.

Financial Accounting Software System

During the current year, the Town implemented the Southern Software System. This system has numerous features that were not operating as intended. As a result, the finance department had to expend additional efforts to correct the system's deficiencies. The following outlines the significant difficulties the Finance department encountered, which caused difficulty in providing accurate financial data in a timely manner.

- The interface between the utility payment system and the general ledger was not working properly during the year resulting in payments not properly applied to accounts receivable on the general ledger. As a result, the Town's finance department spent a significant amount of time recreating the proper general ledger postings for the year to correct accounts receivables and cash balances.

- The interface between other governmental cash payments and the general ledger was not working properly during the year. The interface was posting the payments to the wrong due from account, which resulted in revenue being booked twice when the correct cash account was reconciled. As a result, the Town's finance department spent a significant amount of time recreating the proper general ledger postings to correct this problem.
- The system cannot generate an aged accounts receivable report for utility accounts. An aged accounts receivable balance report is critical in providing the Town a basis for estimating allowance for uncollectible accounts.
- An accurate report on customer utility deposits is not available. During the current year when the Town converted to the new software, the data on customer deposits was never transferred over since the Town no longer charges customer deposits. However, the Town must still maintain records of those individuals who have paid a deposit in the past since they are due a refund at the time that they close their accounts.
- The interface between the accounts payable system and the general ledger is not working properly with regards to voids in the accounts payable system. The Finance department is still working with the software vendor regarding this problem.

We recommend that the Town work with Southern Software in getting these issues resolved as soon as possible.

This report is intended solely for the information and use of the Board of Commissioners and management. These recommendations are made solely for the purpose of assisting you in safeguarding assets and controlling the information needed for proper financial statement presentation.

If you have any questions regarding these suggestions or any other matters, please do not hesitate to call.

Sincerely,



Dixon Hughes PLLC