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TOWN OF BUDE, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

VERBALEE B. WATTS
CERTIFIED PUBLIC ACCOUNTANT

TOWN OF BUDE, MISSISSIPPI

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INDEPENDENT AUDITOR'S REPORT

VERBALEE B. WATTS
CERTIFIED PUBLIC ACCOUNTANT

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November 15, 2006

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INDEPENDENT AUDITOR'S REPORT

Mayor and Board of Aldermen
Town of Bude, Mississippi

We have audited the Combined Statement of Cash Receipts and Disbursements (*All Funds*) of the Town of Bude, Mississippi, as of and for the year ended September 30, 2006. These financial statements are the responsibility of the Town of Bude's management. Our responsibility is to express an opinion on the Cash Receipts and Disbursements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financials. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Cash Receipts and Disbursements presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Town's policy is to prepare its Cash Receipts and Disbursements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Mississippi, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the Combined Statement of Cash Receipts and Disbursements (*All Funds*) referred to above presents fairly, in all material respects, the cash balances of the various funds of the Town of Bude, Mississippi, at September 30, 2006, and the revenues received and expenditures paid in such funds for the year then ended, on the cash basis of accounting, described in Note 1, and has been applied in a manner consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the Combined Statement of Cash Receipts and Disbursements (*All Funds*) as referred to above taken as a whole. The accompanying supplemental schedules are presented as supplemental information and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the Cash Receipts and Disbursements taken as a whole.

In connection with our examination, nothing came to our attention that caused us to believe that the Town is not in compliance with the requirements of the State Department of Audit, as set forth in the municipal compliance questionnaire.

VERBALEE B. WATTS & ASSOCIATES



Verbalee B. Watts
Certified Public Accountant

TOWN OF BUDE, MISSISSIPPI

COMBINED STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS - ALL FUNDS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	---Governmental Funds---		Proprietary	--- Memorandum Only ---	
	General	Special Revenue	Fund Enterprise	Totals	
				2006	2005
<u>REVENUE RECEIPTS</u>					
General Property	\$ 133,825	\$ -	\$ -	\$ 133,825	\$ 123,264
Licenses and Permits	1,710	-	-	1,710	1,325
Franchise Tax	33,874	-	-	33,874	20,729
Railroad Revenue	2,837	-	-	2,837	2,833
Intergovernmental Revenues:					
General Municipal Aid (From State)	8,730	-	-	8,730	8,342
Franklin County	3,500	-	-	3,500	-
State Shared Revenues:					
Grand Gulf	13,655	-	-	13,655	14,261
Sales Tax	124,619	-	-	124,619	105,221
Homestead Exemption Reimbursement	12,755	-	-	12,755	11,975
Charges for Services:					
Water/Sewer Utility	-	-	73,145	73,145	77,119
Fines and Forfeitures	6,908	-	-	6,908	5,320
<u>TOTAL REVENUE RECEIPTS</u>	<u>342,413</u>	<u>-</u>	<u>73,145</u>	<u>415,558</u>	<u>370,389</u>
<u>OTHER RECEIPTS</u>					
Rents	37,254	-	-	37,254	40,549
Interest	10,954	-	4,006	14,960	12,220
Miscellaneous	3,958	-	1,633	5,591	1,679
Grant Funds	-	77,560	-	77,560	29,510
<u>TOTAL OTHER RECEIPTS</u>	<u>52,166</u>	<u>77,560</u>	<u>5,639</u>	<u>135,365</u>	<u>83,958</u>
<u>TOTAL RECEIPTS</u>	<u>394,579</u>	<u>77,560</u>	<u>78,784</u>	<u>550,923</u>	<u>454,347</u>
<u>CASH BALANCE -</u>					
<u>BEGINNING OF YEAR</u>	<u>280,674</u>	<u>8</u>	<u>166,753</u>	<u>447,435</u>	<u>426,950</u>
<u>TOTAL AMOUNT</u>					
<u>TO ACCOUNT FOR</u>	<u>\$ 675,253</u>	<u>\$ 77,568</u>	<u>\$ 245,537</u>	<u>\$ 998,358</u>	<u>\$ 881,297</u>

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

TOWN OF BUDE, MISSISSIPPI

**COMBINED STATEMENT OF
CASH RECEIPTS AND CASH DISBURSEMENTS - ALL FUNDS
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2006**

	---Governmental Funds---		Proprietary	--- Memorandum Only ---	
	General	Special Revenue	Fund Enterprise	Totals 2006	2005
<u>CASH DISBURSEMENTS</u>					
Salaries	\$ 142,880	\$ -	\$ -	\$ 142,880	\$ 143,273
Retirement	15,182	-	-	15,182	14,302
Payroll Taxes	10,931	-	-	10,931	10,961
Repairs	6,832	-	7,437	14,269	7,671
Supplies	5,261	-	14,151	19,412	22,583
Other Services	7,664	-	5,987	13,651	29,634
Insurance	43,210	-	-	43,210	45,501
Gas & Oil	1,030	-	8,281	9,311	5,625
Legal and Professional	20,420	-	1,657	22,077	31,520
Equipment	26,975	-	12,062	39,037	34,169
Utilities	28,313	-	29,028	57,341	48,908
Library Expense	19,500	-	-	19,500	18,107
Interest on Notes	-	-	1,577	1,577	1,842
Note Payable CAP Loan	-	-	4,913	4,913	2,923
Telephone	4,616	-	-	4,616	4,116
Travel Expense	5,248	-	-	5,248	6,127
Waste Water Operator	6,600	-	-	6,600	6,600
Capital Outlay - Blade	-	-	620	620	-
Storm Drains	-	23,760	-	23,760	-
Lagoon	-	53,800	-	53,800	-
Transfers	8	-	243	251	-
<u>TOTAL DISBURSEMENTS</u>	344,670	77,560	85,956	508,186	433,862
<u>CASH BALANCE-END OF YEAR</u>	330,583	8	159,581	490,172	447,435
<u>TOTAL AMOUNT ACCOUNTED FOR</u>	\$ 675,253	\$ 77,568	\$ 245,537	\$ 998,358	\$ 881,297

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

TOWN OF BUDE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

(1) Summary of Significant Accounting Policies

The Town of Bude operates under a Mayor/Alderman form of government and provides services as authorized by law.

A. Reporting Entity

The financial statements of the Town consist of all the funds of the Town.

B. Fund accounting

The accounts of the Town are organized on the basis of funds, and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into five broad fund categories as follows:

GOVERNMENTAL FUNDS

GENERAL FUND

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.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific expenditure purposes. Special Revenue Funds include the CDBG and Home Grant Program.

DEBT SERVICE FUNDS

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The primary revenue source is local property taxes levied specifically for Debt Service.

FIDUCIARY FUNDS

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. This includes an Expendable Trust Fund. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds.

TOWN OF BUDE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Basis of Accounting

The financial statements are prepared on a cash receipts and disbursements basis, as prescribed by the Mississippi State Department of Audit. Consequently, certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

D. Total Columns on Combined Statements - Overview

Total columns on the Combined Statements - Overview are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to consolidation. Interfund eliminations have not been made in the aggregation of this data.

E. Cash

The Town deposits excess funds in the financial institution selected by the board of aldermen in accordance with state statutes.

Cash consists of amounts on deposit with a financial institution, all of which are in interest bearing demand accounts and saving accounts.

Various restrictions on these deposits are imposed by State statutes.
These restrictions are summarized as follows:

All deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance (FSLIC) must be collateralized in an amount equal to 105% of the uninsured amount. The collateral must be on deposit with the Town Clerk.

F. Investments

The Town is allowed, by statute, to invest excess funds in any bonds or other direct obligations of the United States of America or the State of Mississippi, or of any county or municipality of this state, when such county or municipal bonds have been properly approved; or in interest-bearing time certificates of deposit with any financial institution approved for the deposit of state funds.

(2) Report Classification

Receipts and disbursements were classified according to requirements for small towns in the state of Mississippi as prescribed by the State Department of Audit.

(3) Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied as of January 1 and payable on or before February 1. The Town bills and collects its own property taxes except for the personal auto taxes that are collected and remitted to the Town by the county tax collector. The millage rate for the Town for January through December 2005 was 36.00 mills, broken down as follows:

TOWN OF BUDE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Fund</u>	<u>Mills</u>
General Fund (Includes fire)	32.65
Special Street Fund	<u>3.35</u>
	36.00

Restrictions associated with property tax levies are established by state law which provides that the tax levy for general purposes shall produce no more than 110% of the amount which results from those levies' assessments of the previous year.

The "Schedule of Reconciling Original Ad Valorem Tax Rolls to Fund Collection of 2005 Ad Valorem Taxes" is included under supplemental information.

(4) Defined Benefit Pension Plan

Plan Description - The Town of Bude contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444 PERS.

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary and the Town of Bude is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Town of Bude's contributions to PERS for the years ending September 30, 2006, 2005, and 2004 were \$15,157, \$14,302, and \$14,320, respectively, equal to the required contributions for each year.

(5) Cash and Investments

The collateral for public entities' deposits in financial institutions are now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

(6) Long - Term Commitment

The liability of \$5,479 to Union Gas Company presented in the Schedule of Long-Term Debt represents the undepreciated portion of relocation costs and extensions as of September 30, 2006. Union Gas Company incurred the costs of relocation and extensions and the Town is depreciating them over 25 years through contributed capital. A 25-year lease was signed with Union Gas Company on February 3, 1987. At the end of the lease term, the Town will take title to the relocation costs and extension for \$1. If the Town breaks the lease, they will be obligated for the undepreciated value of the costs at that time.

OWN OF BUDE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
(Continued)

(7) General Long - Term Debt

A schedule of long-term debt is on page 14 of this report.

Following is a summary of note payable maturities:

<u>Year Ending</u> <u>September 30,</u>	<u>Water & Sewer</u> <u>Union Gas Note</u>	<u>Water & Sewer</u> <u>Cap Loan</u>	<u>Total</u>
2007	1,589	5,116	6,705
2008	1,589	5,300	6,889
2009	1,590	5,492	7,082
2010	712	5,692	6,404
2011	-0-	5,712	5,712
2012 - Forward	<u>-0-</u>	<u>6,612</u>	<u>6,612</u>
	\$ <u>5,480</u>	\$ <u>33,924</u>	\$ <u>39,404</u>

(8) Interfund Receivables/Payables

The following is a summary of Interfund receivables and payables as of September 30, 2006:

<u>Amount</u>	<u>Due To</u>	<u>Due From</u>
\$ 243	Water & Sewer Fund	Clearing Fund
428	Clearing Fund	General Fund
<u>8</u>	General Fund	CDBG Fund
\$ 679	Total	

SUPPLEMENTAL INFORMATION

TOWN OF BUDE, MISSISSIPPI
SCHEDULE OF RECONCILING ORIGINAL AD VALOREM TAX ROLLS
TO FUND COLLECTIONS OF 2005 AD VALOREM TAXES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Assessed Value</u>	<u>Tax</u>
<u>ADJUSTED ASSESSED VALUATION:</u>		
<u>TOWN:</u>		
Realty	\$ 2,131,796	
Personal – Other than auto & MH	918,276	
Personal – Auto, MH & OL	852,061	
(Remitted by County)		

<u>Total Town @ 36.00 Mills</u>	<u>\$ 3,902,133</u>	\$ 140,477
Less: Homestead exemption reimbursement		< 12,755> \$ 127,722

Add: Actual homestead reimbursement		12,755
Payment in Lieu of taxes (Grand Gulf)		13,655
Prior year tax collection		5,458
County rail tax and other vehicle assessments		4,634
Commissions deducted by county		1,664

Total to be Accounted For		<u>\$ 165,888</u>
	<u>Taxes</u>	<u>Homestead Reimbursement</u>
<u>COLLECTION CREDITS:</u>		<u>Totals</u>
General Fund (Includes Fire Dept.)	\$ 150,317	\$ 12,755 \$ 163,072
<u>BALANCE REPRESENTED BY:</u>		
Unpaid realty		3,866
Unpaid personal		708
Penalties & Interest included in tax payments		<1,758> 2,816

Total Accounted For		<u>\$ 165,888</u>

TOWN OF BUDE, MISSISSIPPI
SCHEDULE OF TAX LEVIES (COMPARATIVE)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>2006</u>		<u>2005</u>	
	<u>Mills</u>	<u>Percent</u>	<u>Mills</u>	<u>Percent</u>
General Fund	32.40	90.00	32.40	90.00
Fire Protection Fund	.25	.69	.25	.69
Special Street Fund	<u>3.35</u>	<u>9.31</u>	<u>3.35</u>	<u>9.31</u>
	<u>36.00</u>	<u>100.00</u>	<u>36.00</u>	<u>100.00</u>

TOWN OF BUDE, MISSISSIPPI
SCHEDULE OF INVESTMENTS – ALL FUNDS
SEPTEMBER 30, 2006

GENERAL FUND:

Certificate of Deposit

General Improvement

Issued June 20, 2006 – Matures December 20, 2006

#83725 @ 4.11% Interest \$ 15,000

General Improvement

Issued June 20, 2006 – Matures December 20, 2006

#83709 @ 4.11% Interest 10,000

General Fund

February 4, 2007 - Due 12 months after deposit

#4636 @ 2.5% Interest 10,461

Law Enforcement

Issued June 20, 2006 – Matures December 20, 2006

#83675 @ 4.11% Interest 1,599

Special Street Improvement

Issued June 20, 2006 – Matures December 20, 2006

#83717 @ 4.11% Interest 10,000

Fire Department

Issued June 20, 2006 – Matures December 20, 2006

#83683 @ 4.11% Interest 10,022

Issued June 20, 2006 – Matures December 20, 2006

#83733 @ 4.11% Interest 10,000

TOTAL GENERAL FUND

\$ 67,082

DEBT SERVICE FUND:

Certificate of Deposit

Gas System Equity Fund

March 9, 2007 - Due 12 months after deposit

#4355 @ 2.37% Interest \$ 733

TOTAL DEBT SERVICE FUND

\$ 733

TOWN OF BUDE, MISSISSIPPI
SCHEDULE OF INVESTMENTS – ALL FUNDS
SEPTEMBER 30, 2006
(CONTINUED)

ENTERPRISE FUND:

Certificate of Deposit

Water and Sewer Fund

Issued June 20, 2006 – Matures December 20, 2006

#83691 @ 4.11% Interest

\$ 10,000

TOTAL ENTERPRISE FUND

\$ 10,000

TRUST AND AGENCY FUND:

Certificate of Deposit

Unemployment Compensation Fund

April 25, 2007 - Due 12 months after deposit

#4608 @ 2.37% Interest

\$ 4,148

TOTAL TRUST AND AGENCY FUND

\$ 4,148

TOTAL INVESTMENTS – ALL FUNDS

\$ 81,963

TOWN OF BUDE, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR TOWN OFFICIALS
SEPTEMBER 30, 2006

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Thomas Earl Case	Mayor	Western Surety Co.	\$ 206,000
		United States Fidelity and Guaranty Co.	\$ 50,000
Debra Wactor	Tax Collector	Western Surety Co.	\$ 206,000
	Town Clerk	Western Surety Co.	\$ 50,000
Robert Peeples	Marshall	Western Surety Co.	\$ 50,000
Everette Marshall	Deputy Marshall	United States Fidelity and Guaranty Co.	\$ 25,000

Note: Even though the Mayors are not required to carry surety bonds as of July 1, 1997, the Mayor of Bude feels more comfortable being covered.

TOWN OF BUDE, MISSISSIPPI
SCHEDULE OF LONG-TERM DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Balance Outstanding <u>10-1-05</u>	Transactions During Fiscal Year		Balance Outstanding <u>9-30-06</u>
		<u>Issued</u>	<u>Redeemed</u>	
<u>OTHER LONG - TERM DEBT:</u>				
<i>Water and Sewer Fund:</i>				
N/P - Union Gas	\$ 7,068	\$ ---	\$ 1,589	\$ 5,479
N/P - Cap Loan	<u>38,837</u>	<u>---</u>	<u>4,913</u>	<u>33,924</u>
<u>TOTAL</u>	<u>\$ 45,905</u>	<u>\$ ---</u>	<u>\$ 6,502</u>	<u>\$ 39,403</u>

COMPLIANCE AND INTERNAL CONTROL REPORT

VERBALEE B. WATTS
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*Member of Mississippi Society
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November 15, 2006

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

Mayor and Board of Alderman
Town of Bude, Mississippi

We have audited the combined statement of Cash Receipts and Disbursements of the Town of Bude, Mississippi, as of and for the year ended September 30, 2006, and have issued our report thereon dated November 15, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether the Town of Bude, Mississippi's general purpose 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Bude, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance 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 Town of Bude, Mississippi's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. The following findings and recommendations describe those reportable conditions noted during our consideration of the internal control structure.

FINDINGS AND RECOMMENDATIONS

We found that the recommendations made at the end of our prior audit had been complied with as far as purchasing 2 commercial water meters, however, they have not been installed. The customers involved with this problem have not paid any water and sewer billings for this fiscal year.

Finding 1: While conducting our audit and observing the Town's assets we found several pieces of equipment and furniture that was broken or inoperable.

Recommendation: We recommended that the Town Clerk make a list of these items and that the Mayor and Board of Aldermen review them, if the items are in fact "junk" assets that the listing be approved for being discarded.

Response: This listing will be presented to the Mayor and Board of Aldermen at the next meeting.

A material weakness is a 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 in amounts that would be material in relation to the general purpose 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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management and the State Department of Audit. However, this report is a matter of public record and its distribution is not limited.

VERBALEE B. WATTS & ASSOCIATES



Verbalee B. Watts

Certified Public Accountant

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November 15, 2006

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**

Mayor and Board of Aldermen
Town of Bude, Mississippi

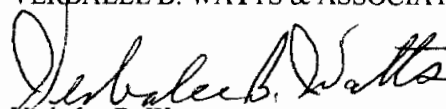
We have audited the general purpose financial statements of the Town of Bude as of and for the year ended September 30, 2006 and have issued our report dated November 15, 2006. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the general purpose financial statements disclosed no material instances of noncompliance with state laws and regulations. The prior year findings have been corrected.

This report is intended for the information of the City's Management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

VERBALEE B. WATTS & ASSOCIATES



Verbaelee B. Watts
Certified Public Accountant