

City of Brevard, North Carolina

Financial Statements

June 30, 2006

CITY OF BREVARD, NORTH CAROLINA

Mayor and City Council

Jimmy Harris

Sara Champion
Rodney Locks
Mack McKeller
Mac Morrow
Dee Dee Perkins

Officials

Joseph Albright.....City Manager
Terry ScruggsDirector of Finance
Dennis C. WildePolice Chief
Mike GallowayFire Chief
Donald Owen.....Director of Public Works
Michael K. Pratt, Jr.....City Attorney
Glenda W. SansostiCity Clerk

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Independent Auditors' Report

To the Honorable Mayor and Members
of the City Council
City of Brevard
Brevard, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brevard, North Carolina, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Brevard's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the City of Brevard ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Brevard ABC Board, is based solely on the reports of the other auditors.

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. The financial statements of City of Brevard ABC Board were not audited in accordance with *Government Auditing Standards*. 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brevard, North Carolina as of June 30, 2006, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund and the capital reserve fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2006, on our consideration of City of Brevard's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the City of Brevard, North Carolina. The combining and individual nonmajor fund financial 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. The combining and individual nonmajor fund financial statements and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material aspects, in relation to the basic financial statements taken as a whole.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
October 5, 2006

Management's Discussion and Analysis

As management of the City of Brevard, we offer readers of the City of Brevard's financial statements this narrative overview and analysis of the financial activities of the City of Brevard for the fiscal year ended June 30, 2006. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City of Brevard's financial statements, which follow this narrative.

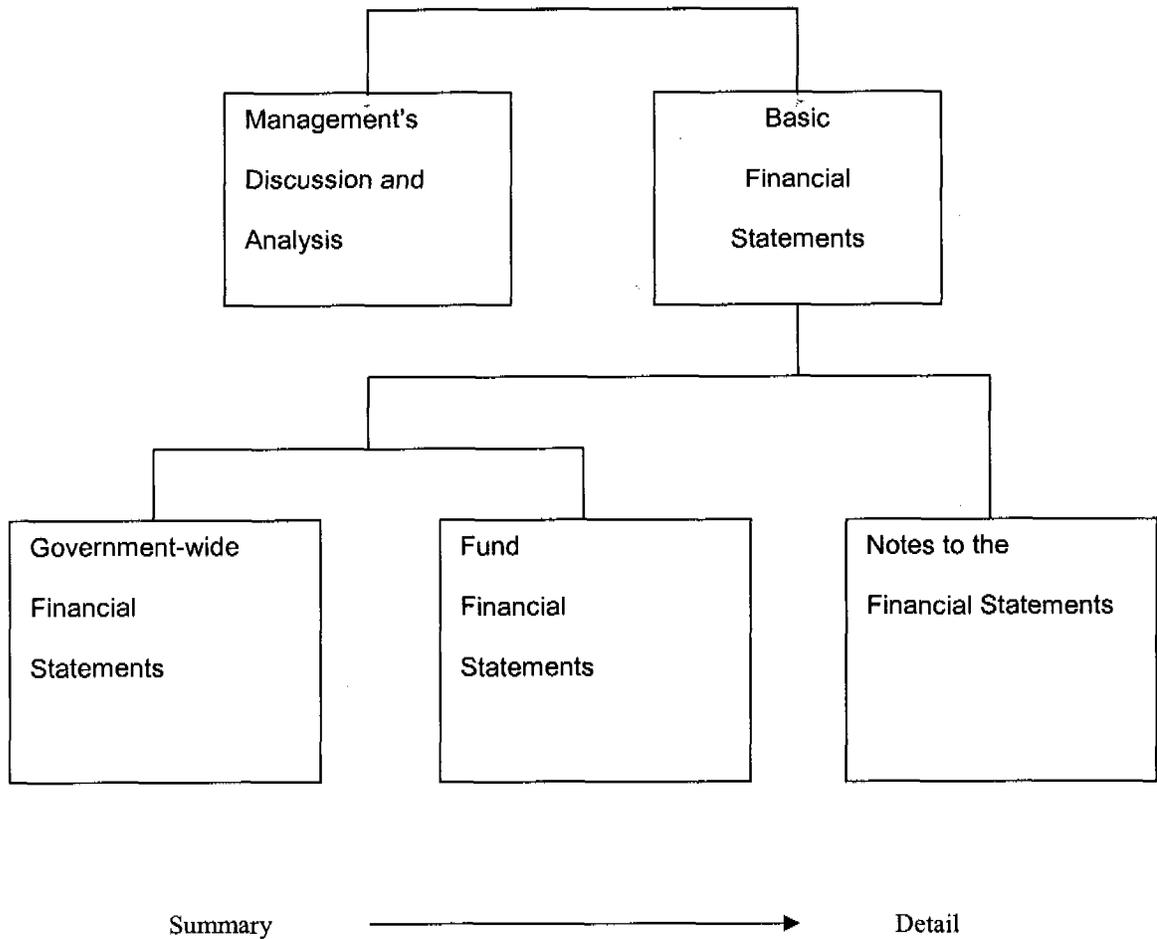
Financial Highlights

- The assets of the City of Brevard exceeded its liabilities at the close of the fiscal year by \$18,744,027 (**net assets**).
- The government's total net assets increased by \$509,643 primarily due to increases in the governmental type activities net assets.
- As of the close of the current fiscal year, the City of Brevard's governmental funds reported combined ending fund balances of \$4,253,487 an increase of \$438,940, in comparison with the prior year. Approximately 81 percent of this total amount, or \$3,471,966, is available for spending at the government's discretion (**unreserved fund balance**).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,149,819 or 34 percent of total general fund expenditures for the fiscal year.
- The City of Brevard's total debt decreased by \$200,270 (9 percent) during the current fiscal year. The key factor in this decrease was due to principal repayment.
- The City of Brevard maintained its North Carolina Municipal Council bond rating of 76.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Brevard's basic financial statements. The City'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 City 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 City of Brevard.

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City'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.

Management's Discussion and Analysis City of Brevard

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, individual fund statements and schedules are provided to show details about the City'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 City'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 City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales taxes and grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer services offered by the City of Brevard. The final category is the component unit. Although legally separate from the City of Brevard, the ABC Store is important to the City because the City exercises control over the Board by appointing its members and because the Board is required to distribute 75% of its profits to the City.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the City'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 City of Brevard, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City of Brevard can be divided into two categories: governmental funds and proprietary 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 City'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* that 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 City'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.

Management's Discussion and Analysis
City of Brevard

The City of Brevard 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 City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City 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 board; 2) the final budget as amended by the board; 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 City of Brevard has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Brevard uses an enterprise fund to account for its water and sewer activity. This fund is the same as that 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 are on pages 23 through 39 of this report.

The City of Brevard's Net Assets
Figure 2

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 4,454,501	\$ 3,955,238	\$ 818,620	\$ 569,386	\$ 5,273,121	\$ 4,524,624
Capital assets	3,393,263	3,541,758	12,277,826	12,450,615	15,671,089	15,992,373
Total assets	<u>7,847,764</u>	<u>7,496,996</u>	<u>13,096,446</u>	<u>\$13,020,001</u>	<u>20,944,210</u>	<u>20,516,997</u>
Long-term liabilities	909,607	974,140	1,107,436	1,185,585	2,017,043	2,155,725
Other liabilities	99,945	48,138	83,195	78,750	183,140	126,888
Total liabilities	<u>1,009,552</u>	<u>1,022,278</u>	<u>1,190,631</u>	<u>1,260,335</u>	<u>2,200,183</u>	<u>2,282,613</u>
Net assets:						
Invested in capital assets, net of related debt	2,682,584	2,720,258	11,235,390	11,318,730	13,917,974	14,038,988
Restricted	125,012	81,421	-	-	125,011	81,421
Unrestricted	4,030,616	3,673,039	670,425	440,936	4,701,041	4,113,975
Total net assets	<u>\$6,838,212</u>	<u>6,474,718</u>	<u>\$11,905,815</u>	<u>\$11,759,666</u>	<u>\$18,744,026</u>	<u>\$ 18,234,384</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Brevard exceeded liabilities by \$18,744,026 as of June 30, 2006. The City's net assets increased by \$509,643 for the fiscal year ended June 30, 2006. Net assets includes investment in capital assets, less any related debt still outstanding that was issued to acquire those items. The City of Brevard uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Brevard's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Brevard's net assets (.67%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,701,041 (25%) is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.19%, which is comparable to the statewide average of 97%. Property tax revenues increased approximately 4.81%.
- Increased sales tax revenues of approximately 8.42% due to economic growth in the City.
- An increase of approximately 6.33% in sales & services revenues

City of Brevard Changes in Net Assets
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for services	\$1,321,813	\$1,295,167	\$ 2,877,851	\$2,654,480	\$ 4,199,664	\$ 3,949,647
Operating grants and contributions	310,484	313,816	—	—	310,484	313,816
Capital grants and contributions	362,246	595,105	182,496	2,149	544,742	597,254
General revenues:						
Property taxes	3,314,178	3,161,995	—	—	3,314,178	3,161,995
Sales tax	1,193,684	1,101,018	—	—	1,193,684	1,101,018
Other	699,086	588,826	23,737	10,920	722,823	599,796
Total revenues	7,201,491	7,055,927	3,084,084	2,667,549	10,285,575	9,723,476
Expenses:						
General government	1,291,127	1,304,631	—	—	1,291,127	1,304,631
Public safety	2,487,855	2,514,258	—	—	2,487,855	2,514,258
Public works	2,382,318	2,301,922	—	—	2,382,318	2,301,922
Economic and physical development	764,932	543,835	—	—	764,932	543,835
Culture and recreation	89,020	50,269	—	—	89,020	50,269
Interest on long term debt	33,512	35,549	—	—	33,512	35,549
Water and sewer	—	—	2,727,168	2,473,835	2,727,168	2,473,835
Total expenses	7,048,764	6,750,464	2,727,168	2,473,835	9,775,932	9,224,299
Increase in net assets before transfers	152,727	305,463	356,916	193,714	509,643	499,177
Transfers	210,767	135,739	(210,767)	(135,739)	—	—
Increase in net assets after transfers	363,494	441,202	146,149	57,975	509,643	499,177
Net assets, July 1	6,474,718	5,992,279	11,759,666	11,628,307	18,234,384	17,620,586
Prior period adjustment	—	41,237	—	73,384	—	114,621
Net assets, June 30	\$6,838,212	\$6,474,718	\$ 11,905,815	\$ 11,759,666	\$18,744,027	\$18,234,384

Management's Discussion and Analysis
City of Brevard

Governmental activities. Governmental activities increased the City's net assets by \$363,493. This amount reflects that asset growth remained relatively stable.

Business-type activities: Business-type activities increased the City of Brevard's net assets by \$146,149.

Financial Analysis of the City's Funds

As noted earlier, the City of Brevard uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Brevard's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Brevard'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.

The general fund is the chief operating fund of the City of Brevard. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,149,819, while total fund balance reached \$2,865,197. 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 35% percent of total General Fund expenditures.

At June 30, 2006, the governmental funds of City of Brevard reported a combined fund balance of \$4,253,486, an 11.51% percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Capital Projects Funds.

General Fund Budgetary Highlights: During the fiscal year, the City of Brevard revised the budget on several occasions. 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 first amendment was prepared at the direction of City Council to provide funding for the Boys and Girls Club with the stipulation that it be used for capital expenditure or project purposes. The second amendment was to provide funding for a reimbursement agreement between the City of Brevard and Low's Home Center to share in the cost of a sewer pump station. The amendment accounts for the City's share of \$10,000. The third amendment was to provide additional funding for street paving. Additional funding was necessary due to the increased costs of the price of petroleum and due to the fact that the City had no resurfaced any streets in several years. The fourth amendment was the shifting of funds between departments to account for the final estimated expenditures for fiscal year 2005-2006.

Proprietary Funds. The City of Brevard's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer District at the end of the fiscal year amounted to \$670,425. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Brevard's business-type activities.

Capital Asset and Debt Administration

Capital assets. The City of Brevard's investment in capital assets for its governmental and business-type activities as of June 30, 2006, totals \$15,671,089 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

Capital Asset Additions: Assets purchased included: two commercial mowers for the Building and Grounds Department, three new police cars and associated communication equipment for the Police Department, and a new backhoe for the Powel Bill Streets Department. There were no major demolitions or disposals recorded this fiscal year.

**City of Brevard's Capital Assets
 (net of depreciation)**

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 319,893	\$ 319,893	\$ 212,891	\$ 212,891	\$ 532,784	\$ 532,784
Buildings and systems	1,626,911	1,712,763	11,580,600	11,683,183	13,207,510	13,463,886
Machinery and equipment	217,988	388,922	338,639	380,868	556,628	807,702
Vehicles and motorized equipment	1,228,471	1,120,181	145,695	173,673	1,374,166	689,520
Total	\$ 3,393,263	\$ 3,541,758	\$ 12,277,826	\$ 12,450,615	\$ 15,671,088	\$ 15,441,713

Additional information on the City's capital assets can be found in Note 4 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2006, the City of Brevard had total bonded debt outstanding of \$-0-. The City of Brevard issued no new debt during fiscal year 2005-2006. Debt decreased by \$110,821 for the Governmental Fund and \$89,449 for the Proprietary Fund due to principal repayments.

City of Brevard's Outstanding Debt
Figure 5

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
Governmental Activities:				
Installment Contracts	\$ 821,500	\$ -	\$ 110,821	\$ 710,679
Compensated Absences	152,640	46,288	-	198,928
Total	\$ 974,140	\$ 46,288	\$ 110,821	\$ 909,607
Business Type Activities:				
Installment Contracts	\$ 1,131,885	\$ -	\$ 89,449	\$ 1,042,436
Compensated Absences	49,700	15,300	-	65,000
Total Business Type	\$ 1,181,585	\$ 15,300	\$ 89,449	\$ 1,107,436

The City of Brevard maintained for the 12th consecutive year, its Baa1 bond rating from Moody's Investor Service. This bond rating is a clear indication of the sound financial condition of the City of Brevard. The North Carolina Municipal Council's rating for the City's is 76, which is comparable to a rating of "Baa/BBB" by the national rating agencies and is considered an "investment grade" rating. The City of Brevard continues to strive to strengthen its financial position by maintaining a strong fund balance, reducing debt, and conservatively managing their budget.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Brevard is \$ 48,069,090. The City has \$-0- in bonds authorized but un-issued at June 30, 2006.

Additional information regarding the City of Brevard's long-term debt can be found in Note 8 beginning on page 37 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic factors reflect the growth, prosperity and challenges facing the City of Brevard.

- The unemployment rate for Transylvania County as of June 2006 was 4.0% compared to 4.6% for the State. The County rate is down from 4.8% in January 2006. More recent employment statistics are shown in the table below.

<u>County</u>	<u>Work Force</u>	<u>September 2005 Unemployment Claims</u>	
		<u>Number</u>	<u>Percent of Work Force</u>
Transylvania	12,733	431	3.4%
Buncombe	119,882	3,956	3.3%
Henderson	47,957	1,504	3.1%
North Carolina	4,466,723	217,494	4.9%

Source: NC Employment Security Commission – September 2006

- Occupancy rates for business, office and retail space within the downtown municipal service district (Heart of Brevard) remain constant from the previous year at approximately 90%.
- Tourism remains a vital and growing part of the Brevard economy. Statistics over the past several years reveal significant growth in this economic sector.

Transylvania County		
Year	Tourism Revenue (\$ millions)	% Growth
2001	60.86	2%
2002	62.08	2%
2003	62.92	1%
2004	64.80	3%
2005	66.75	3%

*Source: Transylvania County Economic Development

- Property taxes for the City of Brevard are collected by Transylvania County. The collection rate has remained steady dipping slightly in 2003. The collection rate for the City remains above the statewide average for municipalities as illustrated in the numbers below.

	2001	2002	2003	2004	2005
City of Brevard	97.43%	97.42%	97.15%	98.05%	98.19%
Statewide	97.19%	97.07%	97.06%	97.30%	97.41%

*Source: State Treasurers Office, Local Government Commission

Management's Discussion and Analysis
City of Brevard

- Within the City, sales tax generated from taxable sales increased 8.42% from \$1,193,684 in the fiscal year 2004-2005, to \$1,101,018 in the fiscal year 2005-2006. This compares with a 7.91% increase for Asheville and a 1.41% increase for Hendersonville.

Budget Highlights for the Fiscal Year Ending June 30, 2006

Governmental Activities

- The general fund budget as adopted decreased 8.03% from \$7,076,043 to \$6,507,865. This decrease is the result of decreased capital spending during the current fiscal year.
- Property tax collections are predicted to increase from \$2.960 to \$3.080 million this year. A 4.05% increase. This growth is predicted based upon strong commercial growth that includes grocery, pharmaceutical, and restaurant retail space.

Proprietary Activities

- Water and Sewer customer receipts grew \$220,000 for fiscal year 2005-2006. This is due to the implementation of Step 3 of the rate flattening strategy previously approved by Council, and a 3.90% sewer rate increase. This rate flattening strategy is intended to eventually eliminate the declining block rate structure now in place with a flat rate to create a fairer system and to encourage water conservation by larger customers. The City experienced a growth in customer base of 117 utility customers. Revenue generated from these rate adjustments will be transferred to capital reserve for future plant improvements.

Other Information:

The following information was provided by the Transylvania County Building Permitting and Enforcement Department for the calendar year ending December 31, 2005:

The building industry was productive for the calendar year 2005 in Transylvania County. As a result, the county building department was busy with plan review, permitting, and inspecting. Below are some comparisons to last year:

The number of new houses constructed in the city is up 280%.

The number of new houses constructed in the county is up 4.5%.

The number of new commercial projects constructed in the city and county is up 67%.

The number of commercial addition/alteration projects constructed in the city and county is down 23%.

The total construction value of all projects for the year is \$111,259,767.00, up 8%.

New home construction growth is strongest in the city of Brevard, followed in descending strength by the townships of Hogback, Connestee, Dunn's Rock and Little River.

Management's Discussion and Analysis
City of Brevard

2005 Construction in the City of Brevard

<u>Residential</u>	<u>Value</u>
59 new homes	\$12,505,585
48 additions/alterations	1,204,370
2 manufactured homes	2,200

<u>Commercial</u>	<u>Value</u>
24 new	\$11,149,992
36 additions/alterations	4,515,454

Construction Values for last 5 years in the City of Brevard

2005 - \$29,377,601
2004 - 25,727,340
2003 - 20,799,938
2002 - 14,030,902
2001 - 23,585,982

Requests for Information

This report is designed to provide an overview of the City'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 Finance Director of the City of Brevard as follows:

Terry Scruggs, Finance Director
City of Brevard
151 W. Main Street
Brevard, N. C. 28712
828-883-4123
828-883-2853 - Fax
tlsfindir@citcom.net
www.cityofbrevard.com

CITY OF BREVARD, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2006

Exhibit 1

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	City of Brevard ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,594,504	\$ 431,880	\$ 4,026,384	\$ 202,650
Taxes receivable (net)	87,232	-	87,232	-
Accrued interest receivable on taxes	20,100	-	20,100	-
Accounts receivable (net)	143,877	259,974	403,851	281
Due from other governments	511,922	-	511,922	-
Inventories	41,426	-	41,426	207,773
Prepaid items	-	47,818	47,818	6,898
Total current assets	4,399,061	739,672	5,138,733	417,602
Restricted assets:				
Cash and cash equivalents	55,440	78,948	134,388	-
Capital assets:				
Land, non-depreciable improvements & construction in progress	319,893	212,891	532,784	-
Other capital assets, net of depreciation	3,073,370	12,064,935	15,138,305	73,762
Total capital assets	3,393,263	12,277,826	15,671,089	73,762
Total assets	7,847,764	13,096,446	20,944,210	491,364
LIABILITIES				
Current liabilities:				
Accounts payable	60,141	4,247	64,388	204,835
Deferred revenue	33,541	-	33,541	-
Accrued interest payable	6,263	-	6,263	-
Customer deposits	-	78,948	78,948	-
Long-term liabilities:				
Due within one year	112,436	94,725	207,161	-
Due in more than one year	797,171	1,012,711	1,809,882	-
Total liabilities	1,009,552	1,190,631	2,200,183	204,835
NET ASSETS				
Invested in capital assets, net of related debt	2,682,584	11,235,390	13,917,974	73,762
Restricted for:				
Capital projects	41,441	-	41,441	-
Special revenue	28,131	-	28,131	-
Other purposes	55,440	-	55,440	69,326
Unrestricted	4,030,616	670,425	4,701,041	143,441
Total net assets	\$ 6,838,212	\$ 11,905,815	\$ 18,744,027	\$ 286,529

The notes to the financial statements are an integral part of these financial statements

CITY OF BREVARD, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,291,127	\$ 387,697	\$ 5,223	\$ -
Public safety	2,487,855	91,025	80,906	-
Public works	2,382,318	833,713	224,355	-
Economic and physical development	764,932	-	-	362,246
Cultural and recreation	89,020	9,378	-	-
Interest on long-term debt	33,512	-	-	-
Total governmental activities	<u>7,048,764</u>	<u>1,321,813</u>	<u>310,484</u>	<u>362,246</u>
Business-type activities:				
Water and sewer	2,727,168	2,877,851	-	182,496
Total business-type activities	<u>2,727,168</u>	<u>2,877,851</u>	<u>-</u>	<u>182,496</u>
Total primary government	<u>\$ 9,775,932</u>	<u>\$ 4,199,664</u>	<u>\$ 310,484</u>	<u>\$ 544,742</u>
Component unit:				
ABC Board	\$ 2,251,455	\$ 2,270,958	\$ -	\$ -
Total component unit	<u>\$ 2,251,455</u>	<u>\$ 2,270,958</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Sales taxes				
Other taxes				
Distribution from component unit-ABC Board				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning				
Net assets, ending				

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	City of Brevard ABC Board	
\$ (898,207)	\$ -	\$ (898,207)	\$ -	-
(2,315,924)	-	(2,315,924)	-	-
(1,324,250)	-	(1,324,250)	-	-
(402,686)	-	(402,686)	-	-
(79,642)	-	(79,642)	-	-
(33,512)	-	(33,512)	-	-
(5,054,221)	-	(5,054,221)	-	-
-	333,179	333,179	-	-
-	333,179	333,179	-	-
(5,054,221)	333,179	(4,721,042)	-	-
-	-	-	19,503	-
-	-	-	19,503	-
3,314,178	-	3,314,178	-	-
1,193,684	-	1,193,684	-	-
395,842	-	395,842	-	-
130,206	-	130,206	-	-
88,170	22,862	111,032	517	-
84,868	875	85,743	107	-
210,767	(210,767)	-	-	-
5,417,715	(187,030)	5,230,685	624	-
363,494	146,149	509,643	20,127	-
6,474,718	11,759,666	18,234,384	266,402	-
\$ 6,838,212	\$ 11,905,815	\$ 18,744,027	\$ 286,529	-

The notes to the financial statements are an integral part of these financial statements

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	Major Funds			Total Governmental Funds
	General	Capital Reserve	Total Non-Major Funds	
ASSETS				
Cash and cash equivalents	\$2,240,901	\$ 1,263,278	\$ 145,765	\$ 3,649,944
Receivables, net:				
Taxes	87,232	-	-	87,232
Accounts	133,174	-	10,703	143,877
Due from other governments	511,922	-	-	511,922
Inventories	41,426	-	-	41,426
Total assets	3,014,655	1,263,278	156,468	4,434,401
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	57,541	-	2,600	60,141
Due from other funds	(28,856)	-	28,856	-
Deferred revenue	120,773	-	-	120,773
Total liabilities	149,458	-	31,456	180,914
Fund balances:				
Reserved for:				
Inventories	41,426	-	-	41,426
Perpetual maintenance	-	-	55,440	55,440
State statute	673,952	-	10,703	684,655
Unreserved, General Fund	2,149,819	-	-	2,149,819
Unreserved, reported in:				
Capital Reserve Fund	-	1,263,278	-	1,263,278
Special Revenue funds	-	-	17,428	17,428
Capital Projects Fund	-	-	41,441	41,441
Total fund balances	2,865,197	1,263,278	125,012	4,253,487
Total liabilities and fund balances	\$3,014,655	\$ 1,263,278	\$ 156,468	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,393,263
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	20,100
Liabilities for earned but deferred revenues in fund statements.	87,232
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	(915,870)
Net assets of governmental activities	\$ 6,838,212

The notes to the financial statements are an integral part of these financial statements

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

For the Year Ended June 30, 2006

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Non- Major Funds</u>	
REVENUES				
Ad valorem taxes	\$ 3,092,136	\$ -	\$ 219,868	\$ 3,312,004
Other taxes and licenses	1,226,226	-	-	1,226,226
Unrestricted intergovernmental	791,731	-	-	791,731
Restricted intergovernmental	317,378	-	362,246	679,624
Permits and fees	-	103,664	-	103,664
Sales and services	914,989	-	-	914,989
Investment earnings	64,553	10,250	6,374	81,177
Miscellaneous	31,574	18,195	22,500	72,269
Total revenues	<u>6,438,587</u>	<u>132,109</u>	<u>610,988</u>	<u>7,181,684</u>
EXPENDITURES				
Current:				
General government	1,263,845	2,975	-	1,266,820
Public safety	2,414,682	-	182	2,414,864
Public works	2,275,699	-	28,856	2,304,555
Economic and physical development	-	-	764,933	764,933
Culture and recreation	58,656	-	-	58,656
Debt service:				
Principal	110,821	-	-	110,821
Interest and other charges	32,862	-	-	32,862
Total expenditures	<u>6,156,565</u>	<u>2,975</u>	<u>793,971</u>	<u>6,953,511</u>
Excess (deficiency) of revenues over expenditures	<u>282,022</u>	<u>129,134</u>	<u>(182,983)</u>	<u>228,173</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	201,603	460,767	358,677	1,021,047
Transfers to other funds	(250,000)	(428,177)	(132,103)	(810,280)
Total other financing sources (uses)	<u>(48,397)</u>	<u>32,590</u>	<u>226,574</u>	<u>210,767</u>
Net change in fund balance	233,625	161,724	43,591	438,940
Fund balances, beginning	2,631,572	1,101,554	81,421	3,814,547
Fund balances, ending	<u>\$ 2,865,197</u>	<u>\$ 1,263,278</u>	<u>\$ 125,012</u>	<u>\$ 4,253,487</u>

CITY OF BREVARD, NORTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2006

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

Net changes in fund balances - total governmental funds	\$ 438,940
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	(148,494)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: Change in deferred revenue for tax revenues	9,166
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>63,882</u>
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Total changes in net assets of governmental activities	<u><u>\$ 363,494</u></u>
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The notes to the financial statements are an integral part of these financial statements

CITY OF BREVARD, NORTH CAROLINA

**GENERAL FUND AND MAJOR SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL**

For the year ended June 30, 2006

	<u>General Fund</u>			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 3,028,500	\$ 3,028,500	\$ 3,092,136	\$ 63,636
Other taxes and licenses	1,112,500	1,112,500	1,226,226	113,726
Unrestricted intergovernmental	675,000	675,000	791,731	116,731
Restricted intergovernmental	325,265	325,265	317,378	(7,887)
Permits and fees	-	-	-	-
Sales and services	888,100	888,100	914,989	26,889
Investment earnings	45,000	45,000	64,553	19,553
Miscellaneous	2,000	2,000	31,574	29,574
Total revenues	<u>6,076,365</u>	<u>6,076,365</u>	<u>6,438,587</u>	<u>362,222</u>
Expenditures:				
Current:				
General government	1,819,195	1,402,124	1,263,845	138,279
Public safety	2,133,708	2,463,779	2,414,682	49,097
Public works	2,479,867	2,423,184	2,275,699	147,485
Cultural and recreation	75,095	75,095	58,656	16,439
Debt service:				
Principal retirement	-	110,821	110,821	-
Interest and other charges	-	32,862	32,862	-
Total expenditures	<u>6,507,865</u>	<u>6,507,865</u>	<u>6,156,565</u>	<u>351,300</u>
Revenues over (under) expenditures	<u>(431,500)</u>	<u>(431,500)</u>	<u>282,022</u>	<u>713,522</u>
Other financing sources (uses):				
Transfers from other funds	331,500	331,500	201,603	(129,897)
Transfers to other funds	-	-	(250,000)	(250,000)
Fund balance appropriated	100,000	100,000	-	(100,000)
Total other financing sources (uses)	<u>431,500</u>	<u>431,500</u>	<u>(48,397)</u>	<u>(479,897)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>233,625</u>	<u>\$ 233,625</u>
Fund balances, beginning			<u>2,631,572</u>	
Fund balances, ending			<u>\$ 2,865,197</u>	

Exhibit 5

Capital Reserve Fund

Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	13,500	103,664	90,164
-	-	-	-
-	1,500	10,250	8,750
-	-	18,195	18,195
-	15,000	132,109	117,109
15,000	419,700	2,975	416,725
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
15,000	419,700	2,975	416,725
(15,000)	(404,700)	129,134	533,834
15,000	-	460,767	460,767
-	-	(428,177)	(428,177)
-	140,000	-	(140,000)
15,000	140,000	32,590	(107,410)
\$ -	\$ (264,700)	161,724	\$ 426,424
		1,101,554	
		\$ 1,263,278	

The notes to the financial statements are an integral part of these financial statements

CITY OF BREVARD, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2006

Exhibit 6

	Major Enterprise Fund
	Water and Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 431,880
Accounts receivable (net)	259,974
Prepaid Assets	47,818
Total current assets	739,672
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	78,948
Capital assets:	
Land and other non-depreciable assets	212,891
Other capital assets, net of depreciation	12,064,935
Capital assets (net)	12,277,826
Total noncurrent assets	12,356,774
Total assets	13,096,446
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	4,247
Customer deposits	78,948
Installment contracts- current	94,725
Total current liabilities	177,920
Noncurrent liabilities:	
Other noncurrent liabilities:	
Compensated absences	65,000
Installment contracts - noncurrent (net)	947,711
Total noncurrent liabilities	1,012,711
Total liabilities	1,190,631
NET ASSETS	
Invested in capital assets, net of related debt	11,235,390
Unrestricted	670,425
Total net assets	\$ 11,905,815

The notes to the financial statements are an integral part of these financial statements

CITY OF BREVARD, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2006

Exhibit 7

	Major Enterprise Fund
	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 2,777,587
Water and sewer taps	45,799
Other operating revenues	237,836
Total operating revenues	3,061,222
OPERATING EXPENSES	
Water treatment and distribution	928,049
Waste collection and treatment	1,120,924
Payment to general fund in lieu of taxes & admin expenses	250,000
Depreciation	376,760
Total operating expenses	2,675,733
Operating income	385,489
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	22,862
Interest and other fees	(51,435)
Total nonoperating revenue (expenses)	(28,573)
Income before contributions and transfers	356,916
Transfers to other funds	(210,767)
Change in net assets	146,149
Total net assets, beginning	11,759,666
Total net assets, ending	\$ 11,905,815

The notes to the financial statements are an integral part of these financial statements

CITY OF BREVARD, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Major Enterprise Fund
	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,019,223
Cash paid for goods and services	(1,364,845)
Cash paid to or on behalf of employees for services	(966,626)
Customer deposits received	4,425
Net cash provided by operating activities	692,177
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(210,767)
Net cash used by noncapital financing activities	(210,767)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(203,971)
Principal paid on bond maturities and equipment contracts	(89,449)
Interest paid on bond maturities and equipment contracts	(51,435)
Net cash used by capital and related financing activities	(344,855)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	22,862
Net cash provided by investing activities	22,862
Net increase in cash and cash equivalents	159,417
Balances, beginning	351,411
Balances, ending	\$ 510,828
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 385,489
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	376,760
Changes in assets and liabilities:	
Increase in accounts receivable	(41,999)
Increase in prepaid assets	(47,818)
Decrease in accounts payable and accrued liabilities	20
Increase in customer deposits	4,425
Decrease in accrued vacation pay	15,300
Total adjustments	306,688
Net cash provided by operating activities	\$ 692,177

The notes to the financial statements are an integral part of these financial statements

CITY OF BREVARD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2006

Note 1 – Summary of Significant Accounting Policies

The City's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The City of Brevard is a municipal corporation, which is governed by an elected mayor and a five-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit, City of Brevard ABC Board, a legally separate entity for which the City is financially accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

City of Brevard ABC Board The members of the ABC Board's governing board are appointed by the City. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the City (75%) and to Transylvania County (25%). The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund. Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at City of Brevard ABC Board, P.O. Box 1016, City of Brevard, NC 28712.

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 and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. 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 expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental 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 City'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 City reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

Capital Reserve Fund. The Capital Reserve fund is used to account for the proceeds of specific revenue that is legally restricted to build up capital to purchase large capital equipment and fund replacement/renovation in future years.

The City reports the following non-major governmental fund:

Special Revenue Funds. The Special Fire District fund and the Municipal Services District Fund are used to account for the proceeds of special fire taxes and Heart of Brevard taxes that are legally restricted to expenditures for those specific activities.

Capital Projects Funds. Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund). The City has three Capital Project Funds: the Pedestrian Bikeway Project the CDBG Rosenwald Project, and the Downtown Master Plan.

Trust Fund. The Bjerg Non-expendable Trust Fund accounts for assets held in a trustee capacity for the maintenance of a specific neighborhood's common property.

The City reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the City 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, and 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 City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On the 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 City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Transylvania 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 City of Brevard. 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 City's vehicle taxes for vehicles registered in Transylvania from March 2005 through February 2006 apply to the fiscal year ended June 30, 2006. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. 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, 2006 because they are intended to finance the City's operations during the 2007 fiscal year.

Sales taxes collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the City 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 City'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 accounting principles generally accepted in the United States of America, 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 City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Special Fire District Fund, the Municipal Services District Fund, the Nonexpendable Bjerg Fund, the Capital Reserve Fund and the Water and Sewer Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Pedestrian Bikeway Project Fund and the CDBG Rosenwald Revitalization Fund. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The Budget Officer is authorized to reallocate departmental appropriations within a department, as said officer believes necessary. The Budget Officer is authorized to effect interdepartmental transfers, in the same fund, provided that no departmental budget shall be reduced by more than ten percent without the prior approval of the City Council. Any such transfers shall be reported to the City Council at its next regular meeting and shall be entered in the minutes. During the year, four amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the City and of the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and the ABC Board 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 City and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The City and the ABC Board's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

In accordance with State law, the City has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

The City 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. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

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

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2005. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City'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. Inventory and Prepaid Items

The inventories of the City and the ABC Board are valued at cost (first-in, first-out), which approximates market. The City's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventories of the City of Brevard ABC Board consist of merchandise held for resale.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, buildings, improvements, substations, lines, and other plant and distribution systems, infrastructure, furniture, equipment, and vehicles, \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of 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.

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

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Improvements	25
Vehicles	6
Furniture and equipment	10
Computer equipment	3

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

Asset Class	Estimated Useful Lives
Buildings	20
Furniture and equipment	10
Vehicles	3 – 5
Leasehold improvements	10 – 20
Computers	3

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements for governmental fund types, new debt is issued is reported as other financing sources and principal and interest payments are reported as expenditures.

9. Compensated Absences

The vacation policies of the City and the ABC Board provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds and the ABC Board, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The current portion of the accumulated vacation pay is not considered material and therefore, no provision for this has been made in the government-wide financial statements.

Both the City and the ABC Board's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the City nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Assets/Fund Balances

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

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

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

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for inventories - portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

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

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

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2005 - 2006 budget ordinance.

Reserved for restricted cash balance - The portion of fund balance not available for appropriations because it represents a gift of which the principal may not be expended.

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

11. Comparative Data

Comparative total data for the prior year has been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the City's financial position and operations. Comparative totals have not been included on the statements where their inclusion would not provide enhanced understanding of the City's financial position and operations or would cause the statements to be unduly complex or difficult to understand. Also, certain amounts presented in prior year's data have been reclassified to be consistent with the current year's presentation.

12. Reconciliation of Government-wide and Fund Financial Statements

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$2,584,725 consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 7,725,843
Less accumulated depreciation	<u>(4,332,580)</u>
Net capital assets	3,393,263
Accrued interest receivable less the amount claimed as unearned revenue in the government-wide statements as these funds are not available and therefore deferred in the fund statements	20,100
Liabilities for revenue deferred but earned and therefore recorded in the fund statements but not the government-wide	87,232
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Bonds, leases and installment financing	(710,679)
Compensated absences	(198,928)
Accrued interest payable	<u>(6,263)</u>
Total adjustment	<u>\$ 2,584,725</u>

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities the governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of (\$75,446) as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of net assets	\$ 232,678
Depreciation expense, the allocation of those assets over their useful lives that is recorded on the statement of activities but not in the fund statements	(381,172)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements	110,821
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Interest payable	(651)
Accrued compensated absences	(46,288)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements:	
Reversal of deferred interest revenue recorded at July 1, 2005	(13,108)
Recording of interest revenue deferred in fund statements at June 30, 2006	20,100
Reversal of deferred tax revenue recorded at July 1, 2005	(85,058)
Recording of tax receipts deferred in the fund statements as of June 30, 2006	<u>87,232</u>
Total adjustment	<u>\$ (75,446)</u>

13. Use of Estimates

The City uses estimates and assumptions in preparing the basic financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures.

14. Deficit in Fund Balance of Individual Funds

The Pedestrian/Bikeway Capital Project Fund had a \$3,333 deficit in fund balance at June 30, 2006. The City will receive additional funding in the upcoming year to cover this deficit.

Note 2 – Cash and Investments

1. Deposits

All the deposits of the City and the ABC Board 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 City's or the ABC Board's agents in these units' names. 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 City and the ABC Board, these deposits are considered to be held by the City's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City and the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City and the ABC Board have no policy regarding custodial credit risk for deposits.

At June 30, 2006, the City's deposits had a carrying amount of \$3,596,394 and a bank balance of \$3,652,154. Of the bank balance, \$116,933 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$ 202,650 and the bank balance was \$ 178,266. All of the bank balance was covered by federal depository insurance. At June 30, 2006, the City's petty cash fund totaled \$450.

2. Investments

At June 30, 2006, the City of Brevard had \$563,927 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk.

Interest Rate Risk The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk The City has no policy regarding credit risk. The City's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2006.

Note 3 - Receivables

The amounts reported as receivables in the combined balance sheet are net of the following allowances for doubtful accounts:

General Fund:	
Allowance for uncollectible property taxes receivable	\$ 38,000
Allowance for uncollectible refuse collection fees	35,300
Water and Sewer Fund:	
Allowance for uncollectible utility receivables	156,400

Note 4 - Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 319,893	\$ -	\$ -	\$ 319,893
Total capital assets not being depreciated	319,893	-	-	319,893
Capital assets being depreciated:				
Buildings and Infrastructure	3,086,607	12,300	-	3,098,907
Equipment	627,464	39,018	-	665,482
Vehicles and motorized equipment	3,484,149	182,360	24,946	3,641,563
Total capital assets being depreciated	7,198,220	232,678	24,946	7,405,952
Less accumulated depreciation for:				
Buildings	1,373,962	98,035	-	1,471,997
Equipment	400,204	47,290	-	447,494
Vehicles and motorized equipment	2,202,190	235,847	24,946	2,413,091
Total accumulated depreciation	3,976,356	\$ 381,172	\$ 24,946	4,332,582
Total capital assets being depreciated, net	3,221,866			3,073,370
Governmental activities capital assets, net	\$ 3,541,758			\$ 3,393,263

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

General government	\$	38,231
Public safety		155,278
Transportation		144,876
Cultural and recreational		42,787
Total depreciation expense	\$	<u>381,172</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 212,891	\$ -	\$ -	\$ 212,891
Total capital assets not being depreciated	<u>212,891</u>	<u>-</u>	<u>-</u>	<u>212,891</u>
Capital assets being depreciated:				
Plant and distribution systems	16,679,222	182,000	-	16,861,222
Maintenance equipment and furniture	622,636	-	-	622,636
Vehicles	424,285	21,971	-	446,256
Total capital assets being depreciated	<u>17,726,143</u>	<u>203,971</u>	<u>-</u>	<u>17,930,114</u>
Less accumulated depreciation for:				
Plant and distribution systems	4,996,039	284,583	-	5,280,622
Maintenance equipment and furniture	241,767	42,229	-	283,997
Vehicles	250,612	49,948	-	300,560
Total accumulated depreciation	<u>5,488,418</u>	<u>\$ 376,760</u>	<u>\$ -</u>	<u>5,865,179</u>
Total capital assets being depreciated, net	<u>12,237,725</u>			<u>12,064,935</u>
Business-type activities capital assets, net	<u>\$ 12,450,615</u>			<u>\$ 12,277,826</u>

Discretely presented component unit:

Activity for the ABC Board for the year ended June 30, 2006 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Leasehold improvements	\$ 53,520	\$ -	\$ -	\$ 53,520
Office and store equipment	69,786	12,062	-	81,848
Law enforcement equipment	21,740	-	-	21,740
Total assets being depreciated	<u>145,046</u>	<u>12,062</u>	<u>-</u>	<u>157,108</u>
Less accumulated depreciation	67,198	\$ 16,148	\$ -	83,346
ABC Board capital assets, net	<u>\$ 77,848</u>			<u>\$ 73,762</u>

Note 5 - Pension Plan ObligationsLocal Governmental Employees' Retirement System

Plan Description - The City of Brevard contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy - Plan members are required to contribute six percent of their annual covered salary. The City and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.89% and 4.78%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 7.27% of annual covered payroll. The contribution requirements of members and of the City of Brevard and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2006, 2005 and 2004 were \$162,222, \$153,415 and \$134,029, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2006, 2005 and 2004 were \$8,773, \$8,767 and \$8,889, respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

Law Enforcement Officers' Special Separation Allowance

Plan Description - The City of Brevard administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of 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.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At June 30, 2006, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Active plan members	<u>23</u>
Total	<u>24</u>

Summary of Significant Accounting Policies - Basis of Accounting. The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments - No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions - The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

Annual Pension Cost - The City's annual pension cost and net pension obligation to the Separation Allowance for the years ended June 30, 2006, 2005 and 2004 were \$49,657, \$16,276, and \$16,276, respectively.

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan description: The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a 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 City. 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 City 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, 2006 were \$68,954, which consisted of \$50,441 from the City and \$18,513 from the law enforcement officers.

Firemen's and Rescue Squad Worker's Pension Fund

Plan Description - The State of North Carolina contributes, on behalf of the City of Brevard, 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, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

Funding Policy - Plan members are required to contribute \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

Note 6 - Deferred/Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Prepaid taxes (General Fund)	\$ -	\$ 33,541
Taxes receivable (General Fund)	87,232	-
Total	\$ 87,232	\$ 33,541

Note 7 - Risk Management

The City 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 City has been named as a defendant in a lawsuit related to withholding approval of a subdivision plat. The outcome of such litigation is uncertain, however, management and legal council believes the ultimate resolution will not have a material adverse effect on the financial position or results of operations. The City carries insurance for risks of loss through the Interlocal Risk Financing Pool of North Carolina. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8 - Long-term Debt**A. Installment Contracts**

In August 2000, the City entered into an installment purchase contract for \$1,500,000 to finance water and sewer utilities to recently annexed areas. The financing agreement requires semi-annual payments of \$70,442 including interest of 4.6%.

In October 2000, the City entered into an installment purchase contract for \$850,000 to finance city hall improvements. The financing agreement requires semi-annual payments of \$28,333 plus interest at 5.66%.

In January 2005, the City entered into an installment purchase contract to finance a new fire truck. The financing agreement requires 8 semi-annual payments of \$30,230 including interest at 2.96%.

The future minimum payments of the agreements as of June 30, 2006, including interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Fire Truck</u>	<u>City Hall</u>	<u>Water and Sewer Fund</u>
2007	\$ 60,460	\$ 86,335	\$ 140,884
2008	60,460	83,127	140,884
2009	60,460	79,920	140,884
2010	—	76,712	140,884
2011	—	73,505	140,884
Thereafter	—	291,080	563,540
Total obligations	<u>\$ 181,380</u>	<u>\$ 690,679</u>	<u>\$ 1,267,960</u>
Amounts representing interest	<u>\$ 9,033</u>	<u>\$ 152,346</u>	<u>\$ 225,524</u>

B. Bonds Payable

At June 30, 2006, there were no outstanding authorizations to issue bonds and no outstanding general obligation bonds and the City had a legal debt margin of \$48,069,090.

C. *Changes in Long-term Debt*

The following is a summary of changes in long-term debt for the year ended June 30, 2006:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance</u> <u>June 30, 2006</u>
By type:				
Installment contracts	\$ 821,500	\$ -	\$ 110,821	\$ 710,679
Compensated absences	152,640	46,288	-	198,928
Total	<u>\$ 974,140</u>	<u>\$ 46,288</u>	<u>\$ 110,821</u>	<u>\$ 909,607</u>
By purpose:				
Vehicles	\$ 226,500	\$ -	\$ 54,154	\$ 172,346
Real estate	595,000	-	56,667	538,333
Compensated absences	152,640	46,288	-	198,928
Total	<u>\$ 974,140</u>	<u>\$ 46,288</u>	<u>\$ 110,821</u>	<u>\$ 909,607</u>
Business-type activities:				
Installment contracts	\$ 1,131,885	\$ -	\$ 89,449	\$ 1,042,436
Compensated absences	49,700	15,300	-	65,000
Business-type activity long-term liabilities	<u>\$ 1,185,585</u>	<u>\$ 15,300</u>	<u>\$ 89,449</u>	<u>\$ 1,107,436</u>

The following is a summary of interest expense during the year ended June 30, 2006:

	<u>Interest</u> <u>Expense</u>
General fund	\$ 33,512
Water and sewer fund	51,435

Note 9 - Interfund Balances and Activity

Balances Due to/from Other Funds:

 Due to the General Fund from the Fire District Fund \$ 8,000

Transfers to/from Other Funds:

 Transfers to/from other funds for the year ending

 June 30, 2006, consist of the following:

From the Bjerg Fund to the General Fund	1,104
From the Fire District Fund to the General Fund	131,000
From the Capital Reserve Fund to the General Fund	69,500
From the General Fund to the Capital Reserve Fund	250,000
From the Water and Sewer Fund to the Capital Reserve Fund	210,767
From the Capital Reserve Fund to the Downtown Master Plan Fund	358,677

Note 10 - Bjerg Nonexpendable Trust Fund

The Bjerg Nonexpendable Trust Fund, consisting of a gift of \$55,440 from the Estate of Dorothy S. Bjerg, is restricted. The income from the fund is to be used for the maintenance and upkeep of the building known as "French Broad Community Center" located in the City.

Note 11 - Ad Valorem Taxes

The total tax scroll and records of individual assessments for ad valorem taxes are maintained by the Transylvania County Tax Collector on behalf of the City. Collections are made by the County Tax Collector and remitted to the City of Brevard at least monthly. A three percent (3%) collection fee for current tax collections and a five percent (5%) collection fee for delinquent tax collections are charged to the City by the County.

Note 12 - Related Party Transactions

The City purchased \$23,734 of goods during the year ended June 30, 2006 from Harris Hardware and Farm Supply, Inc., which is operated by Mayor Jimmy Harris. The City and the Mayor complied with all restrictions and requirements of state law.

**INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

CITY OF BREVARD, NORTH CAROLINA

GENERAL FUND
COMPARATIVE BALANCE SHEET
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ 2,240,901	\$ 2,050,563
Receivables (net):		
Ad valorem taxes	87,232	85,058
Accounts receivable	133,174	83,596
Due from other governments	511,922	479,792
Due from other funds	28,856	8,000
Inventories	<u>41,426</u>	<u>52,146</u>
	<u>\$ 3,043,511</u>	<u>\$ 2,759,155</u>
 Liabilities and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	\$ 57,541	\$ 10,507
Deferred revenues	<u>120,773</u>	<u>117,076</u>
Total liabilities	<u>178,314</u>	<u>127,583</u>
 Fund balances:		
Reserved for inventories	41,426	52,146
Reserved by State statute	673,952	571,388
Unreserved:		
Designated for subsequent years' expenditures	-	100,000
Undesignated	<u>2,149,819</u>	<u>1,908,038</u>
Total fund balances	<u>2,865,197</u>	<u>2,631,572</u>
	<u>\$ 3,043,511</u>	<u>\$ 2,759,155</u>

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 For the year ended June 30, 2006
 With comparative actual amounts for the year ended June 30, 2005

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Revenues				
Ad Valorem Taxes:				
Current year	\$ 2,960,000	\$ 2,994,214	\$ 34,214	\$ 2,859,081
Prior years	59,000	75,672	16,672	72,907
Penalties and interest	12,000	24,468	12,468	19,290
Refunds paid on ad valorem tax	(2,500)	(2,218)	282	(1,939)
	3,028,500	3,092,136	63,636	2,949,339
Other Taxes:				
Local option sales tax:				
One cent	460,000	488,326	28,326	466,640
½ cent levy	420,000	496,135	76,135	434,475
Article 44 - ½ cent levy	205,000	209,223	4,223	199,903
Privilege licenses	20,000	21,009	1,009	21,868
Zoning administration	7,500	11,533	4,033	8,765
	1,112,500	1,226,226	113,726	1,131,651
Unrestricted Intergovernmental Revenues:				
Payments in lieu of taxes:				
Water and sewer fund	250,000	250,000	-	250,000
Other	5,000	5,000	-	5,000
Franchise tax	280,000	322,321	42,321	293,876
Beer and wine taxes	29,000	30,013	1,013	29,869
Utilities franchise tax - CATV	1,000	17,498	16,498	1,000
City narcotics investigation	10,000	36,693	26,693	24,413
Hold harmless	-	-	-	40,274
City of Brevard ABC Board	100,000	130,206	30,206	94,506
	675,000	791,731	116,731	738,938
Restricted Intergovernmental Revenues:				
State street aid allocation	230,000	224,355	(5,645)	222,527
Court facilities fees	6,500	6,893	393	8,170
Grant from Insurance Carrier	4,500	5,223	723	7,980
P.O. GEBG Grant	82,500	78,356	(4,144)	31,124
Grant - Dept. of Homeland Security	-	2,551	2,551	-
Grants- other	31,765	-	(31,765)	-
Grant for Fire Department	-	-	-	131,339
FEMA - Hurricane flooding	-	-	-	52,185
	355,265	317,378	(37,887)	453,325

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

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Sales and Services:				
Recreation department fees	11,000	9,378	(1,622)	16,874
Recycling revenue	32,500	39,548	7,048	35,581
Rents	24,000	22,500	(1,500)	21,000
Parking violation penalties	2,500	9,800	7,300	3,152
Refuse collection fees	507,000	515,102	8,102	509,667
Vehicle maintenance	263,500	279,062	15,562	270,506
Sale of fixed assets	10,000	1,960	(8,040)	14,353
School resource officer	37,600	37,639	39	37,639
	<u>888,100</u>	<u>914,989</u>	<u>26,889</u>	<u>908,772</u>
Investment earnings	45,000	64,553	19,553	27,764
Miscellaneous:				
Other	2,000	31,574	29,574	888
Total revenues	<u>6,076,365</u>	<u>6,438,587</u>	<u>362,222</u>	<u>6,210,677</u>
Expenditures				
General Government:				
Governing Body:				
Salaries and employee benefits		33,684		31,525
Other operating expenses		27,503		29,676
	62,048	61,187	861	61,201
Administration:				
Salaries and employee benefits		134,442		145,384
Other operating expenses		58,995		47,128
	198,783	193,437	5,346	192,511
City Clerk:				
Salaries and employee benefits		62,810		63,547
Other operating expenses		40,833		27,215
Capital Outlay		7,620		-
	107,310	111,263	(3,953)	90,762
Elections:				
Contracted services	10,050	-	10,050	-

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

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
General Government (continued):				
Finance:				
Salaries and employee benefits		187,334		181,388
Other operating expenses		77,123		105,364
Equipment		38,018		3,497
	328,980	302,475	26,505	290,249
Tax Collector:				
Other operating expenses	100,000	93,146	6,854	87,971
Legal:				
Other operating expenses	46,000	45,208	792	69,989
Planning:				
Salaries and employee benefits		203,204		145,582
Other operating expenses		107,188		97,117
	334,148	310,391	23,757	242,700
Special Appropriations:				
Rescue squad		4,500		4,500
Arts Council		5,000		5,000
Chamber of Commerce		3,500		3,500
Heart of Brevard		20,000		15,000
SAFE		6,000		6,000
Transylvania Dispute Settlement Center		4,000		4,000
Boys/Girls		10,000		15,000
	53,000	53,000	-	53,000
Personnel:				
Salaries and employee benefits		75,827		95,582
Other operating expenses		17,912		12,023
	161,805	93,739	68,066	107,605
Total General Government	1,402,124	1,263,846	138,278	1,195,988
Public Safety:				
Police:				
Salaries and employee benefits		1,797,210		1,803,762
Other operating expenses		315,801		318,762
Capital outlay		70,488		102,576
	2,175,258	2,183,499	(8,241)	2,225,100

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

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Public Safety (continued):				
Fire:				
Salaries and employee benefits		80,540		74,237
Other operating expenses		129,422		475,981
Capital outlay		21,221		272,142
	288,521	231,183	57,338	822,360
Total public safety	2,463,779	2,414,682	49,097	3,047,460
Public Works:				
Administration:				
Salaries and employee benefits		87,580		114,411
Other operating expenses		57,770		52,436
	183,313	145,350	37,963	166,847
Central Maintenance:				
Salaries and employee benefits		130,198		130,798
Other operating expenses		305,459		241,297
	428,723	435,657	(6,934)	372,095
Streets:				
Salaries and employee benefits		99,468		94,628
Other operating expenses		142,022		139,939
	264,878	241,490	23,388	234,567
Powell Aid				
Salaries and employee benefits		191,834		183,416
Other operating expenses		188,856		54,173
Capital outlay		65,575		36,642
	500,702	446,266	54,436	274,230
Building and Grounds:				
Salaries and employee benefits		195,326		175,437
Other operating expenses		145,839		185,888
Capital outlay		53,047		130,693
	383,949	394,211	(10,262)	492,019

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

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Public Works (continued):				
Sanitation:				
Salaries and employee benefits		292,154		298,090
Other operating expenses		320,572		341,446
Capital outlay		-		116,167
	661,619	612,726	48,893	755,703
Total public works	2,423,184	2,275,699	147,485	2,295,461
Recreation Department:				
Salaries and employee benefits		17,068		29,247
Other operating expenses		41,588		53,976
	75,095	58,656	16,439	83,222
Debt service:				
Principal retirement		110,821		56,667
Interest		32,862		36,083
	143,683	143,683	-	92,749
Total expenditures	6,507,865	6,156,565	351,299	6,714,881
Revenue over (under) expenditures	(401,500)	282,022	683,521	(504,204)
Other Financing Sources (Uses):				
Operating transfers from other funds:				
Bjerg Fund	1,000	1,103	103	793
Fire District Fund	131,000	131,000	-	191,000
Capital Reserve Fund	199,500	69,500	(130,000)	418,500
Operating transfers to other funds:				
Capital Reserve Fund	-	(250,000)	(250,000)	(223,638)
Lease purchase proceeds	-	-	-	226,500
Fund balance appropriated	100,000	-	(100,000)	-
	431,500	(48,397)	(479,897)	613,155
Revenues and other sources over expenditures and other uses	<u>\$ 30,000</u>	233,625	<u>\$ 203,624</u>	108,950
Fund Balances:				
Beginning of year		2,631,572		2,522,622
Fund balance, end of year		<u>\$ 2,865,197</u>		<u>\$2,631,572</u>

CITY OF BREVARD, NORTH CAROLINA

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

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Revenues:				
Impact fees - water and sewer	\$ 13,500	\$ 103,664	\$ 90,164	\$ 110,100
Investment earnings	1,500	10,250	8,750	6,756
Transylvania County and others	-	18,195	18,195	48,591
Total revenues	15,000	132,109	117,109	165,447
Expenditures:				
Capital projects	419,700	2,975	416,725	81,880
Revenues over expenditures	(404,700)	129,134	533,834	83,567
Other Financing Sources (Uses):				
Operating transfers from (to)				
General Fund	264,700	250,000	(14,700)	223,638
General Fund	-	(69,500)	(69,500)	(418,500)
Water and sewer fund	-	210,767	210,767	135,739
Downtown master plan fund	-	(358,677)	(358,677)	-
Fund balance appropriated	140,000	-	(140,000)	-
Total other financing sources (uses)	404,700	32,590	(372,110)	(59,123)
Revenues and other sources over (under) expenditures and other uses	\$ -	161,724	\$ 161,724	24,444
Fund balance, beginning of year		1,101,554		1,077,110
Fund balance, end of year		\$ 1,263,278		\$1,101,554

CITY OF BREVARD, NORTH CAROLINA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2006

	Special Revenue	
	Special Fire District Fund	Heart of Brevard Municipal Service District Fund
Assets		
Cash and cash equivalents	\$ 16,600	\$ -
Accounts receivable, net	6,066	-
Total assets	<u>\$ 22,666</u>	<u>\$ -</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	\$ -	\$ -
Due to other funds	-	-
Fund balances:		
Reserved by State Statute	6,066	-
Restricted by Donor	-	-
Unreserved	16,600	-
	<u>22,666</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 22,666</u>	<u>\$ -</u>

Capital Projects			Permanent	Total Nonmajor
Pedestrian	CDBG	Downtown	Non-expend	Governmental
Bikeway	Revitalization	Master Plan	Bjerg	Funds
Project Fund			Trust Fund	
\$ 25,523	\$ 10,219	\$ 37,155	\$ 56,268	\$ 145,765
-	2,600	2,037	-	10,703
\$ 25,523	\$ 12,819	\$ 39,192	\$ 56,268	\$ 156,468
\$ -	\$ 2,600	\$ -	\$ -	\$ 2,600
28,856	-	-	-	28,856
28,856	2,600	-	-	31,456
-	2,600	2,037	-	10,703
-	-	-	55,440	55,440
(3,333)	7,619	37,155	828	58,869
(3,333)	10,219	39,192	56,268	125,012
\$ 25,523	\$ 12,819	\$ 39,192	\$ 56,268	\$ 156,468

CITY OF BREVARD
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2006

	<u>Special Revenue</u>		<u>Capital Projects</u>		
	Fire District Fund	Heart of Brevard Municipal Service District Fund	Pedestrian Bikeway Project Fund	CDBG Revitalization	Downtown Master Plan
Revenues:					
Ad valorem taxes	\$ 138,246	\$ 81,622	\$ -	\$ -	\$ -
Restricted intergovernmental	-	-	-	362,246	-
Sales and services	-	-	-	-	-
Investment earnings	2,826	118	174	67	1,462
Miscellaneous	-	-	22,500	-	-
Total revenues	<u>141,072</u>	<u>81,740</u>	<u>22,674</u>	<u>362,313</u>	<u>1,462</u>
Expenditures:					
Public Safety	182	-	-	-	-
Economic and physical development	-	81,740	-	362,246	320,947
Transportation	-	-	28,856	-	-
Total expenditures	<u>182</u>	<u>81,740</u>	<u>28,856</u>	<u>362,246</u>	<u>320,947</u>
Revenues over expenditures	<u>140,890</u>	<u>-</u>	<u>(6,182)</u>	<u>67</u>	<u>(319,485)</u>
Other Financing Sources (Uses)					
Transfers in:					
General fund	-	-	-	-	-
Capital reserve fund	-	-	-	-	358,677
Transfers out:					
General fund	(131,000)	-	-	-	-
Total other financing sources (uses)	<u>(131,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>358,677</u>
Net change in fund balances	9,890	-	(6,182)	67	39,192
Fund balance, beginning	12,776	-	2,849	10,152	-
Fund balance, ending	<u>\$ 22,666</u>	<u>\$ -</u>	<u>\$ (3,333)</u>	<u>\$ 10,219</u>	<u>\$ 39,192</u>

<u>Permanent</u>	
Non-expend Bjerg Trust Fund	Total Nonmajor Governmental Funds
\$ -	\$ 219,868
-	362,246
-	-
1,727	6,374
-	22,500
<u>1,727</u>	<u>610,988</u>
-	182
-	764,933
-	28,856
<u>-</u>	<u>793,971</u>
<u>1,727</u>	<u>(182,983)</u>
-	-
-	358,677
<u>(1,103)</u>	<u>(132,103)</u>
<u>(1,103)</u>	<u>226,574</u>
624	43,591
<u>55,644</u>	<u>81,421</u>
<u>\$ 56,268</u>	<u>\$ 125,012</u>

CITY OF BREVARD, NORTH CAROLINA

SPECIAL FIRE DISTRICT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	<u>2006</u>		Variance Positive (Negative)	<u>2005</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Ad valorem taxes	\$ 130,000	\$ 138,246	\$ 8,246	\$ 137,220
Investment earnings	1,000	2,826	1,826	1,747
Total revenues	<u>131,000</u>	<u>141,072</u>	<u>10,072</u>	<u>138,967</u>
Expenditures:				
Miscellaneous	-	182	(182)	179
Revenues over expenditures	<u>131,000</u>	<u>140,890</u>	<u>9,890</u>	<u>138,788</u>
Other Financing Uses:				
Operating transfer to other funds:				
General fund (for Fire Department expenditures)	131,000	131,000	-	(191,000)
Total other financing uses	<u>131,000</u>	<u>131,000</u>	<u>-</u>	<u>(191,000)</u>
Revenues and other sources over other uses	<u>\$ -</u>	<u>9,890</u>	<u>\$ 9,890</u>	<u>(52,212)</u>
Fund balance, beginning of year		<u>12,776</u>		<u>64,988</u>
Fund balance, end of year		<u>\$ 22,666</u>		<u>\$ 12,776</u>

CITY OF BREVARD, NORTH CAROLINA

SPECIAL MUNICIPAL SERVICE DISTRICT FUND
HEART OF BREVARD

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

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	2006		Variance	2005
	Budget	Actual	Positive (Negative)	Actual
Revenues:				
Ad valorem taxes	\$ 73,975	\$ 81,622	\$ 7,647	\$ 79,972
Investment earnings	25	118	93	97
Total revenues	74,000	81,740	7,740	80,069
Expenditures:				
Current:				
Contracted services	74,000	81,740	(7,740)	80,069
Revenues over expenditures	\$ -	-	\$ -	-
Fund balance, beginning of year		-		-
Fund balance, end of year		\$ -		\$ -

CITY OF BREVARD, NORTH CAROLINA

PEDESTRIAN/BIKEWAY CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 From inception and for the year ended June 30, 2006

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Grants	\$ 341,200	\$ 337,560	\$ -	\$ 337,560
Contributions	37,706	32,677	-	32,677
Investment earnings	5,000	7,120	174	7,294
Reimbursement from DOT	-	13,640	-	13,640
Miscellaneous	-	875	22,500	23,375
Total revenues	<u>383,906</u>	<u>391,872</u>	<u>22,674</u>	<u>414,546</u>
Expenditures:				
Engineering, design and construction	546,382	551,499	28,856	580,355
Total expenditures	<u>546,382</u>	<u>551,499</u>	<u>28,856</u>	<u>580,355</u>
Revenues over (under) expenditures	<u>(162,476)</u>	<u>(159,627)</u>	<u>(6,182)</u>	<u>(165,809)</u>
Other Financing Sources:				
Transfers from General Fund	162,476	162,476	-	162,476
Total other financing sources	<u>162,476</u>	<u>162,476</u>	<u>-</u>	<u>162,476</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 2,849</u>	<u>(6,182)</u>	<u>\$ (3,333)</u>
Fund balance, beginning of year			<u>2,849</u>	
Fund balance (deficit), end of year			<u>\$ (3,333)</u>	

CITY OF BREVARD, NORTH CAROLINA

**DOWNTOWN MASTER PLAN CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Revenues:				
Investment earnings	\$ -	\$ 1,462	\$ 1,462	\$ -
Total revenues	-	1,462	1,462	-
Expenditures:				
Construction	361,227	320,947	40,280	-
Revenues over expenditures	(361,227)	(319,485)	41,742	-
Other Financing Uses:				
Operating transfer from other funds:				
Capital Reserve fund	361,227	358,677	(2,550)	-
Total other financing uses	361,227	358,677	(2,550)	-
Revenues and other sources over other uses	\$ -	39,192	\$ 39,192	-
Fund balance, beginning of year		-		-
Fund balance, end of year		\$ 39,192		\$ -

CITY OF BREVARD, NORTH CAROLINA

**CDBG REVITALIZATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
From inception and for the year ended June 30, 2006**

	Project Authorization	Prior Years	Actual	
			Current Year	Total to Date
Revenues:				
Grant-04-C-1327 Rosenwald Year 3	\$ 350,000	\$ 2,579	\$ 342,810	\$ 345,389
Grant-04-C-1458 Rosenwald Year 4	350,000	-	14,870	14,870
Grant-03-C-1172 English Hills	208,600	202,959	4,566	207,525
Transfer from General Fund	-	10,000	-	10,000
Interest	-	152	67	219
Total revenues	908,600	215,690	362,313	578,003
Expenditures:				
Grant-04-C-1327 Rosenwald year 3:				
Playground facilities	27,000	-	27,000	27,000
Pedestrian improvements	73,500	-	58,500	58,500
Clearance activities	6,700	-	6,700	6,700
Public services	5,000	-	5,000	5,000
Relocation assistance	80,800	173	100,627	100,800
Housing rehab	40,000	-	35,388	35,388
Other	64,500	-	59,500	59,500
Planning and Administration	52,500	2,406	50,095	52,501
	350,000	2,579	342,810	345,389
Grant-04-C-1458 Rosenwald year 4:				
Acquisition	97,800	-	-	-
Playground facilities	30,000	-	-	-
Flood & Drainage improvements	73,000	-	2,600	2,600
Clearance activities	7,200	-	-	-
Public services	2,500	-	-	-
Housing rehab	37,500	-	700	700
Other	49,500	-	11,570	11,570
Planning and Administration	52,500	-	-	-
	350,000	-	14,870	14,870
Grant-03-C-1172 English Hills:				
Street improvements	118,000	118,000	-	118,000
Flood and drainage improvements	20,500	20,500	-	20,500
Pedestrian improvements	3,250	3,250	-	3,250
Water	47,600	47,600	-	47,600
Planning	3,500	3,500	4,566	8,066
Administration	15,750	10,109	-	10,109
	208,600	202,959	4,566	207,525
Total expenditures	908,600	205,538	362,246	567,784
Revenues over expenditures	\$ -	\$ 10,152	67	\$ 10,219
Fund balance, beginning of year			<u>10,152</u>	
Fund balance, end of year			<u>\$ 10,219</u>	

CITY OF BREVARD, NORTH CAROLINA

**BJERG NONEXPENDABLE TRUST FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	2006			2005
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues:				
Investment earnings	\$ 1,000	\$ 1,727	\$ 727	\$ 793
Other Financing Sources (Uses):				
Transfer to General Fund - (for French Broad Community Center Improvements)	1,000	1,103	(103)	793
Revenues over (under) other uses	<u>\$ -</u>	<u>624</u>	<u>\$ 624</u>	-
Fund balance, beginning of year		<u>55,644</u>		<u>55,644</u>
Fund balance, end of year		<u>\$ 56,268</u>		<u>\$ 55,644</u>

CITY OF BREVARD, NORTH CAROLINA

WATER AND SEWER FUND
STATEMENT OF NET ASSETS
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 431,880	\$ 276,888
Accounts receivable (net)	259,974	217,975
Prepaid Assets	47,818	-
Total current assets	<u>739,672</u>	<u>494,863</u>
Restricted assets:		
Cash and cash equivalents	<u>78,948</u>	74,523
Capital assets (net)	<u>12,277,826</u>	12,450,615
Total assets	<u>13,096,446</u>	<u>13,020,001</u>
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	4,247	4,227
Installment contracts - current	94,725	89,449
Total current liabilities	<u>98,972</u>	93,676
Current liabilities payable from restricted assets:		
Customer deposits	<u>78,948</u>	74,523
Noncurrent liabilities:		
Compenstated absences	65,000	49,700
Installment contracts - noncurrent (net)	947,711	1,042,436
Total noncurrent liabilities	<u>1,012,711</u>	1,092,136
Total liabilities	<u>1,190,631</u>	1,260,335
Net Assets		
Invested in capital assets, net of related debt	11,318,730	11,318,730
Unrestricted	587,085	440,936
Total net assets	<u>\$ 11,905,815</u>	<u>\$ 11,759,666</u>

WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Revenues:				
Operating Revenues:				
Charges for utilities:				
Water	\$ 1,410,000	\$ 1,479,353	\$ 69,353	\$ 1,343,847
Sewer	1,270,000	1,298,234	28,234	1,221,557
Taps and connection fees:				
Water	35,000	37,204	2,204	26,121
Sewer	10,000	8,595	(1,405)	12,280
Other operating revenues	52,000	54,465	2,465	50,675
Total operating revenues	2,777,000	2,877,851	100,851	2,654,480
Nonoperating Revenues:				
Interest on investments	15,000	22,862	7,862	10,920
Contributions from developers	-	182,496	182,496	-
Other	-	875	875	2,149
Total nonoperating revenues	15,000	206,233	191,233	13,069
Total revenues	2,792,000	3,084,084	292,084	2,667,549
Expenditures:				
Water Service:				
Water Treatment:				
Salaries and employee benefits		271,459		263,117
Other operating expenses		254,355		224,969
Capital outlay		-		139,117
	531,496	525,814	5,682	627,203
Water Distribution:				
Salaries and employee benefits		257,666		242,322
Other operating expenses		166,541		116,941
Capital outlay		-		36,613
	400,769	424,207	(23,438)	395,876
Total water service	932,265	950,021	(17,756)	1,023,079

WATER AND SEWER FUND
 SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP)

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Expenditures (continued):				
Sewer Service:				
Sewage Treatment:				
Salaries and employee benefits		367,160		319,191
Other operating expenses		308,115		314,487
	653,449	675,275	(21,826)	633,678
Sewer Maintenance:				
Salaries and employee benefits		185,041		170,253
Other operating expenses		238,636		155,397
Capital outlay		21,972		47,360
	439,819	445,649	(5,830)	373,010
Total sewer service	1,093,268	1,120,924	(27,656)	1,006,688
Nondepartmental Budgetary Appropriations:				
Interest and fees		51,435		56,711
Debt principal		89,449		84,174
Transfer to Capital Reserve Fund		210,767		135,739
Payment to general fund in lieu of taxes and administrative expenses		250,000		250,000
Total nondepartmental budgetary appropriations	766,467	601,651	164,816	526,624
Total expenditures	2,792,000	2,672,596	119,404	2,556,391
Revenues over (under) expenditures	\$ -	\$ 411,488	\$ 411,488	\$ 111,158

CITY OF BREVARD, NORTH CAROLINA

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**WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)**

For the year ended June 30, 2006

With comparative actual amounts for the year ended June 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of Modified Accrual Basis to Full Accrual Basis:		
Revenues over (under) expenditures	411,488	111,158
Budgetary appropriations not affecting net income:		
Payment of debt principal	89,449	84,174
Capital outlay	21,972	223,090
Depreciation	(376,760)	(360,447)
Net income	<u>\$ 146,149</u>	<u>\$ 57,975</u>

City of Brevard, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2006

<u>Fiscal Year</u>	Uncollected Balance June 30, 2005	Additions	Collections And Credits	Uncollected Balance June 30, 2006
2005-2006	\$ -	\$ 3,059,408	\$ 3,002,758	\$ 56,650
2004-2005	50,809	6,059	39,646	17,222
2003-2004	19,383	7,020	15,095	11,308
2002-2003	16,001	8,007	11,951	12,057
2001-2002	9,923	-	1,564	8,359
2000-2001	5,562	-	356	5,206
1999-2000	4,689	-	387	4,302
1998-1999	4,667	-	431	4,236
1997-1998	4,021	-	681	3,340
1996-1997	3,398	-	846	2,552
1995-1996	2,605	-	2,605	-
	<u>\$ 121,058</u>	<u>\$ 3,080,494</u>	<u>\$ 3,076,320</u>	<u>125,232</u>
				<u>(38,000)</u>
				<u>\$ 87,232</u>
<u>Reconciliation with revenues:</u>				
				<u>\$ 3,092,136</u>
				Reconciling items:
				Interest collected (24,468)
				Taxes written off for 1995-1996 per statute of limitations 2,603
				Abatements and adjustments 6,049
				<u>Subtotal (15,816)</u>
				<u>\$ 3,076,320</u>
				Total collections and credits

City of Brevard, North Carolina
Analysis of Current Tax Levy
City - Wide Levy
For the Fiscal Year Ended June 30, 2006

	City - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy	\$ 600,863,635	0.495	\$ 2,974,275	\$2,771,812	\$ 202,463
Discoveries	22,169,527		109,739	109,739	-
Abatements	<u>(4,970,908)</u>		<u>(24,606)</u>	<u>(24,606)</u>	<u>-</u>
Total property valuation	<u><u>\$ 618,062,254</u></u>				
Net levy			3,059,408	2,856,945	202,463
Uncollected taxes at June 30, 2006			<u>(56,650)</u>	<u>(34,500)</u>	<u>(22,150)</u>
Current year's taxes collected			<u><u>\$ 3,002,758</u></u>	<u><u>\$2,822,445</u></u>	<u><u>\$ 180,313</u></u>
Current levy collection percentage			<u><u>98.15%</u></u>	<u><u>98.79%</u></u>	<u><u>89.06%</u></u>

COMPLIANCE SECTION

**Report On Internal Control Over Financial Reporting And On Compliance and Other
Matters Based On An Audit Of Financial Statements Performed In Accordance With
*Government Auditing Standards***

To the Honorable Mayor and
Members of the City Council
City of Brevard, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brevard, North Carolina, as of and for the year ended June 30, 2006, which collectively comprises the City of Brevard's basic financial statements, and have issued our report thereon dated October 5, 2006. We did not audit the financial statements of the City of Brevard ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Brevard ABC Board, is based solely on the reports of the other auditors. 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. The financial statements of the City of Brevard ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Brevard's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. 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. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Brevard's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the City of Brevard, in a separate letter dated October 5, 2006.

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

Donald Killian CPA Group, P.A.

Asheville, North Carolina
October 5, 2006

Report On Compliance With Requirements Applicable To Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 and the State Single Audit Implementation Act

To the Honorable Mayor and
Members of the City Council
City of Brevard, North Carolina

Compliance

We have audited the compliance of the City of Brevard, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Brevard's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Brevard's management. Our responsibility is to express an opinion on the City of Brevard's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Brevard's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Brevard's compliance with those requirements.

In our opinion, the City of Brevard complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Brevard is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Brevard's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Donald Killian CPA Group, P.A.

Asheville, North Carolina
October 5, 2006

CITY OF BREVARD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2005

Section 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 X No
- Reportable condition(s) identified that are not to be considered material weaknesses _____ Yes X None reported

Noncompliance material to financial statements noted _____ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses _____ Yes X None reported

Type of auditor’s report issued on compliance for major federal programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 _____ Yes X No

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
14.228	Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs \$ 300,000

- Auditee qualified as low-risk auditee? _____ Yes X No

State Awards

There were no major State programs for the city of Brevard.

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

CITY OF BREVARD, NORTH CAROLINA

**SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
For the year ended June 30, 2006**

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA #</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Passed through the N.C. Department of Commerce:			
Community Development Block			
Grant for Aid and Public Assistance			
RS-03-C-1327	14.228	\$ 342,810	\$ -
RS-03-C-1458	14.228	14,870	-
RS-03-C-1172	14.228	5,641	-
 <u>U.S. Department of Homeland Security:</u>			
FEMA-Interoperable Communications Equipment			
	97.055	2,551	-
 <u>N.C. Department of Transportation:</u>			
Powell Bill	XXXX	-	224,355
Governor's Highway Safety Program	20.600	19,361	-
National Highway Safety Adm – Safety Incentives	20.605	<u>58,995</u>	-
 Total assistance expended		 <u>\$ 444,228</u>	 <u>\$ 224,355</u>

Notes to the Schedule of Expenditures of Federal and State Awards:

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City of Brevard and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit organizations and the State Single Audit Implementation Act.