

**City of Brevard
Brevard, North Carolina**

Financial Statements

June 30, 2007

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**

CONTENTS

	Page	Exhibit
Financial Section:		
Independent Auditors' Report	1 – 2	
Management's Discussion and Analysis	3 – 13	
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	14	1
Statement of Activities	15 – 16	2
Fund Financial Statements:		
Balance Sheet – Governmental Funds	17	3
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	18	4
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund and Major Special Reserve Fund	20 – 21	5
Statement of Net Assets – Proprietary Fund	22	6
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund	23	7
Statement of Cash Flows – Proprietary Fund	24	8
Notes to the Financial Statements	25 – 42	
Required Supplemental Financial Data		
Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress	43	
Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Employer Contributions	44	
Law Enforcement Officers' Special Separation Allowance – Notes to Required Schedules	44	

Individual Fund Statements and Schedules:

General Fund:

Comparative Balance Sheet	45
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	46 – 50

Capital Reserve Fund:

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	51
--	----

Combining and Individual Fund Statements and Schedules:

Combining Balance Sheet – Nonmajor Governmental Funds	52 – 53
---	---------

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	54 – 55
--	---------

Schedule of Revenues, Expenditures and Changes in Fund Balances –
Budget and Actual

Special Fire District Fund	56
----------------------------	----

Special Municipal Service District Fund - Heart of Brevard	57
--	----

Wayfinding Capital Reserve Fund	58
---------------------------------	----

Pedestrian/Bikeway Capital Project Fund	59
---	----

CDBG Rosenwald Revitalization Fund	60
------------------------------------	----

Downtown Master Plan/Capital Project Fund	61
---	----

Bjerg Nonexpendable Trust Fund	62
--------------------------------	----

Water and Sewer Fund:

Statement of Net Assets	63
-------------------------	----

Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP)	64 – 66
---	---------

Gallimore Road Sewer Rehab Capital Project Fund	67
---	----

Gaia Water Line Capital Project Fund	68
--------------------------------------	----

Supplemental Financial Data:

Schedule of Ad Valorem Taxes Receivable	69
---	----

Analysis of Current Tax Levy	70
------------------------------	----

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	71 – 72
Schedule of Findings and Questioned Costs	73 – 74
Schedule of Federal and State Financial Assistance	75

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, 2007, 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, 2007, 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 January 30, 2008, 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
January 30, 2008

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, 2007. 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.

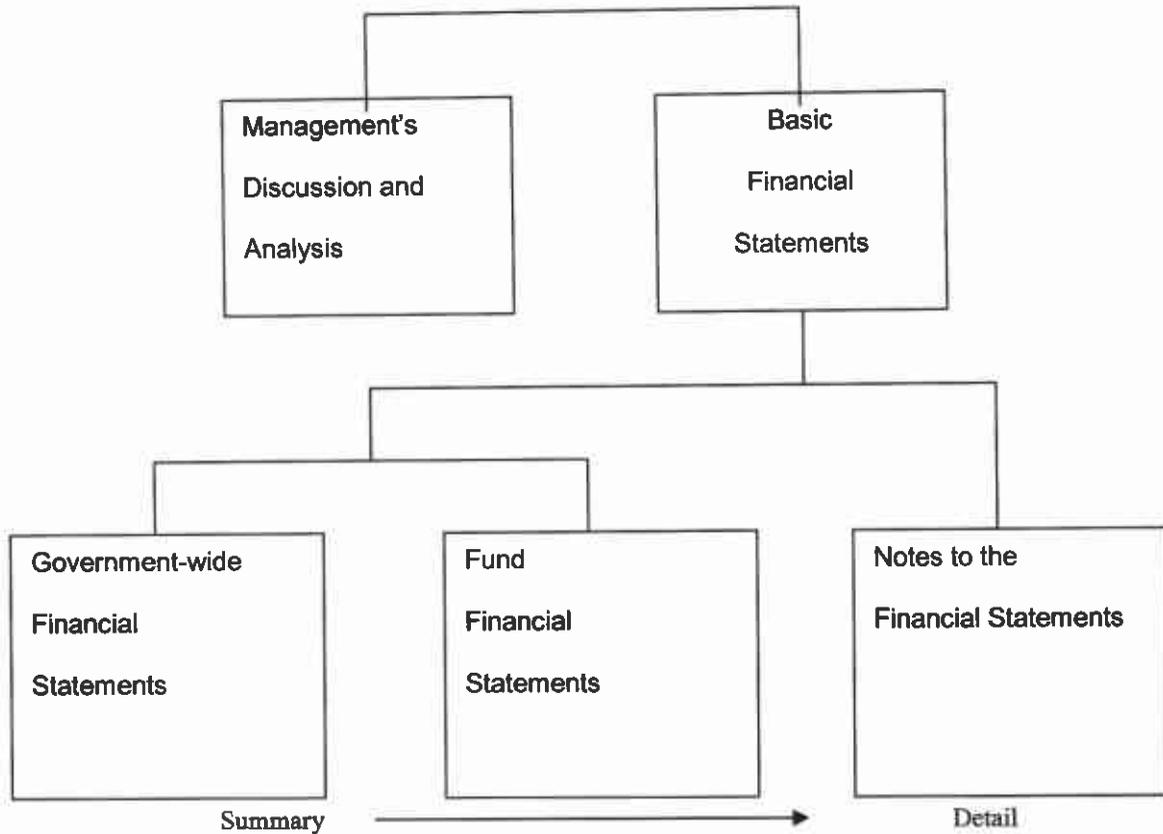
Financial Highlights

- The assets of the City of Brevard exceeded its liabilities at the close of the fiscal year by \$18,494,161 (**net assets**).
- The government's total net assets increased by \$14,974 primarily due to increases in the business 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 \$4,008,060 a decrease of \$245,427 in comparison with the prior year. Approximately 76 percent of this total amount, or \$3,073,066, 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 \$2,081,875 or 31 percent of total general fund expenditures for the fiscal year.
- The City of Brevard's total debt decreased by \$214,378 (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.

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.

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

Management's Discussion and Analysis
City of Brevard

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 25 through 42 of this report.

The City of Brevard's Net Assets
Figure 2

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 4,136,944	\$ 4,454,501	\$ 947,483	\$ 818,620	\$ 5,084,427	\$ 5,273,121
Capital assets	3,200,037	3,393,263	12,508,019	12,277,826	15,708,056	15,671,089
Total assets	7,336,981	7,847,764	13,455,502	13,096,446	20,792,483	20,944,210
Long-term liabilities	1,046,794	909,607	1,020,711	1,107,436	2,067,505	2,017,043
Other liabilities	67,270	99,945	163,547	83,195	230,817	183,140
Total liabilities	1,114,064	1,009,552	1,184,258	1,190,631	2,298,322	2,200,183
Net assets:						
Invested in capital assets, net of related debt	2,601,794	2,682,584	11,560,308	11,235,390	14,162,102	13,917,974
Restricted	104,542	125,012	-	-	104,542	125,011
Unrestricted	3,516,581	4,030,616	710,936	670,425	4,227,517	4,701,042
Total net assets	\$6,222,917	\$6,838,212	\$12,271,244	\$11,905,815	\$18,494,161	\$18,744,027

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 \$18,494,161 as of June 30, 2007. The City's net assets increased by \$14,974 for the fiscal year ended June 30, 2007. 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 (.55%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,227,517 (23%) is unrestricted.

Management's Discussion and Analysis
City of Brevard

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 99.26%, which is comparable to the statewide average of 97%. Property tax revenues increased approximately 4%.
- Sales tax revenues of approximately the same as prior year.
- An increase of approximately 5.42% in sales & services revenues

City of Brevard Changes in Net Assets
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$1,309,795	\$1,321,813	\$ 2,979,355	\$ 2,877,851	\$ 4,289,150	\$4,199,664
Operating grants and contributions	684,887	310,484	—	—	684,887	310,484
Capital grants and contributions	—	362,246	244,085	182,496	244,085	544,742
General revenues:						
Property taxes	3,425,440	3,314,178	—	—	3,425,440	3,314,178
Sales tax	1,188,700	1,193,684	—	—	1,188,700	1,193,684
Other	730,907	699,086	26,798	23,737	757,705	722,823
Total revenues	7,339,729	7,201,491	3,250,238	3,084,084	10,589,967	10,285,575
Expenses:						
General government	1,443,019	1,291,127	—	—	1,443,019	1,291,127
Public safety	2,702,505	2,487,855	—	—	2,702,505	2,487,855
Public works	2,716,162	2,382,318	—	—	2,716,162	2,382,318
Economic and physical development	456,582	764,932	—	—	456,582	764,932
Culture and recreation	258,832	89,020	—	—	258,832	89,020
Interest on long term debt	34,221	33,512	—	—	34,221	33,512
Water and sewer	—	—	2,963,672	2,727,168	2,963,672	2,727,168
Total expenses	7,611,321	7,048,764	2,963,672	2,727,168	10,574,993	9,775,932
Increase (decrease) in net assets before transfers	(271,592)	152,727	286,566	356,916	14,974	509,643
Transfers	(78,863)	210,767	78,863	(210,767)	—	—
Increase (decrease) in net assets after transfers	(350,455)	363,494	365,429	146,149	14,974	509,643
Net assets, beginning, as previously reported	6,838,212	6,474,718	11,905,815	11,759,666	18,744,027	18,234,384
Prior period adjustment	(264,840)	—	—	—	(264,840)	—
Net assets, beginning, as restated	6,573,372	6,474,718	11,905,815	11,759,666	18,479,187	18,234,384
Net assets, ending	\$6,222,917	\$6,838,212	\$12,271,244	\$11,905,815	\$18,494,161	\$18,744,027

Management's Discussion and Analysis
City of Brevard

Governmental activities. Governmental activities decreased the City's net assets by \$350,455.

Business-type activities: Business-type activities increased the City of Brevard's net assets by \$365,429.

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 \$2,081,875, while total fund balance reached \$2,932,347. 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 31% percent of total General Fund expenditures.

At June 30, 2007, the governmental funds of City of Brevard reported a combined fund balance of \$4,008,060, a 5.78% percent decrease over last year. Included in this change in fund balance are increase in fund balance of the Capital Reserve Fund and decreases in General and other funds.

General Fund Budgetary Highlights: During the fiscal year, the City of Brevard revised the budget on two 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 to provide additional funding for street paving. The second amendment was the shifting of funds between departments to account for the final estimated expenditures for fiscal year 2006-2007.

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 \$710,936. 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, 2007, totals \$15,708,056 (net of accumulated depreciation). These assets include buildings, 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):

Management's Discussion and Analysis
City of Brevard

Capital Asset Additions: Assets purchased included: vehicles, computer equipment and water & sewer line construction. There were no major demolitions or disposals recorded this fiscal year.

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

Figure 4

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 319,893	\$ 319,893	\$ 212,891	\$ 212,891	\$ 532,784	\$ 532,784
Buildings and systems	1,528,144	1,626,910	11,296,967	11,580,600	12,825,111	13,207,510
Construction in progress	—	—	497,948	—	497,948	—
Construction in progress	237,210	217,989	293,750	338,639	530,960	556,628
Vehicles and motorized equipment	1,114,790	1,228,472	206,463	145,695	1,321,253	1,374,168
Total	<u>\$ 3,200,037</u>	<u>\$ 3,393,264</u>	<u>\$ 12,508,019</u>	<u>\$ 12,277,827</u>	<u>\$ 15,708,056</u>	<u>\$ 15,671,089</u>

The construction in progress in 2007 consists of water and sewer lines. Additional information on the City's capital assets can be found in Note 5 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2007, the City of Brevard had total bonded debt outstanding of \$-0-. The City of Brevard issued no new debt during fiscal year 2006-2007. Debt decreased by \$127,653 for the Governmental Fund and \$86,725 for the Proprietary Fund due to principal repayments.

City of Brevard's Outstanding Debt
Figure 5

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Governmental Activities:				
Installment Contracts	\$ 710,679	\$ -	\$ 112,436	\$ 598,243
Compensated Absences	198,928	-	8,563	190,365
Net pension obligations	264,840	-	6,654	258,183
Total	\$ 1,174,447	\$ -	\$ 127,653	\$ 1,046,794
Business Type Activities:				
Installment Contracts	\$ 1,042,436	\$ -	\$ 94,725	\$ 947,711
Compensated Absences	65,000	8,000	-	73,000
Total Business Type	\$ 1,107,436	\$ 8,000	\$ 94,725	\$ 1,020,711

The City of Brevard maintained for the 13th 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 \$ 51,196,590. The City has \$-0- in bonds authorized but un-issued at June 30, 2007.

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 2007 was 4.3% compared to 5.1% for the State. The County rate is down from 4.6% in January 2007. More recent employment statistics are shown in the table below.

County	September 2007 Unemployment Claims		
	Work Force	Number	Percent of Work Force
Transylvania	13,196	465	3.5%
Buncombe	120,488	4,208	3.5%
Henderson	48,456	1,648	3.4%
North Carolina	4,540,947	205,047	4.5%

Source: NC Employment Security Commission – September 2007

- 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%
2006	69.94	5%

*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	2006
City of Brevard	97.43%	97.42%	97.15%	98.05%	98.19%	99.26%
Statewide	97.19%	97.07%	97.06%	97.30%	97.41%	96.63%

*Source: State Treasurers Office, Local Government Commission

Management's Discussion and Analysis
City of Brevard

- Within the City, sales tax generated from taxable sales decreased 0.42% from \$1,193,684 in the fiscal year 2005-2006, to \$1,188,700 in the fiscal year 2006-2007. This compares with a 10.69% increase for Asheville and a 6.25% increase for Hendersonville.

Budget Highlights for the Fiscal Year Ending June 30, 2008

Governmental Activities

- The general fund budget as adopted decreased from \$6,896,318 to \$6,804,886. Property tax collections are predicted to increase from \$3.118 to \$3.247 million this year, a 4.13% 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 \$167,000 for fiscal year 2006-2007. This is due to the implementation of Step 4 of the rate flattening strategy previously approved by Council, and a 3.00% water and 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 33 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, 2006:

The building industry was productive for the calendar year 2006 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:

Detailed Residential Construction Value 2006

New house value: City 22 houses - \$6,944,150

New house value: County 211 houses - \$65,511,109

Addition/Remodel Value: City 52 houses - \$1,668,615

Addition/Remodel Value: County 176 houses - \$8,319,822

Manufactured Homes: City 5 houses - \$205,400

Manufactured Homes: County 69 houses - \$2,350,526

Detailed Commercial Construction Value 2006

Management's Discussion and Analysis
City of Brevard

Detailed Commercial Construction Value 2006

New: City 7 - \$3,387,678
New: County 8 - \$3,859,668

Addition/Remodel: City 58 - \$5,513,346
Addition/Remodel: County 29 - \$1,006,417

The number of new house permits in 2006 compared to 2005 was down 19%.
The number of new house permits in 2006 compared to 2004 was down 9.6%.
The total construction value in 2006 compared to 2005 was down 8.9%.
The construction value of commercial construction in 2006 compared to 2005 was down 24%.
The number of commercial addition/alteration projects constructed in the city and county was down 23%.

New home construction growth was strongest in the 276 South area, pushed by many new homes in Connestee. This growth was followed in descending strength by the Toxaway area, City of Brevard and Wilson Road area, lower 64 West, and 64 East/Hwy 280.

Construction Values for last 6 years in the City of Brevard

2006 - \$ 17,719,189
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
95 W. Main Street
Brevard, N. C. 28712
828-885-5600
828-883-2853 - Fax
tlfindir@citcom.net
www.cityofbrevard.com

CITY OF BREVARD, NORTH CAROLINA

Exhibit 1

STATEMENT OF NET ASSETS
June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	City of Brevard ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,164,094	\$ 389,139	\$ 3,553,233	\$ 181,963
Taxes receivable (net)	52,197	-	52,197	-
Accrued interest receivable on taxes	15,542	-	15,542	-
Accounts receivable (net)	139,666	236,534	376,200	262
Due from other governments	557,377	244,085	801,462	-
Internal balances	94,359	(94,359)	-	-
Inventories	58,269	-	58,269	277,988
Prepaid items	-	76,617	76,617	6,227
Total current assets	4,081,504	852,016	4,933,520	466,440
Restricted assets:				
Cash and cash equivalents	55,440	95,467	150,907	-
Capital assets:				
Land, non-depreciable improvements & construction in progress	319,893	710,839	1,030,732	-
Other capital assets, net of depreciation	2,880,144	11,797,180	14,677,324	58,361
Total capital assets	3,200,037	12,508,019	15,708,056	58,361
Total assets	7,336,981	13,455,502	20,792,483	524,801
LIABILITIES				
Current liabilities:				
Accounts payable	42,995	68,080	111,075	218,931
Unearned revenue	18,150	-	18,150	-
Accrued interest payable	6,125	-	6,125	-
Customer deposits	-	95,467	95,467	-
Long-term liabilities:				
Due within one year	114,099	94,725	208,824	-
Due in more than one year	932,695	925,986	1,858,681	-
Total liabilities	1,114,064	1,184,258	2,298,322	218,931
NET ASSETS				
Invested in capital assets, net of related debt	2,601,794	11,560,308	14,162,102	58,361
Restricted for:				
Capital projects	15,747	-	15,747	-
Special revenue	32,527	-	32,527	-
Other purposes	56,268	-	56,268	85,751
Unrestricted	3,516,581	710,936	4,227,517	161,758
Total net assets	\$ 6,222,917	\$ 12,271,244	\$ 18,494,161	\$ 305,870

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, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,443,019	\$ 377,636	\$ 1,750	\$ -
Public safety	2,702,505	66,772	21,079	-
Public works	2,716,162	865,387	236,672	-
Economic and physical development	456,582	-	341,866	-
Cultural and recreation	258,832	-	83,520	-
Interest on long-term debt	34,221	-	-	-
Total governmental activities	7,611,321	1,309,795	684,887	-
Business-type activities:				
Water and sewer	2,963,672	2,979,355	-	244,085
Total business-type activities	2,963,672	2,979,355	-	244,085
Total primary government	\$ 10,574,993	\$ 4,289,150	\$ 684,887	\$ 244,085
Component unit:				
ABC Board	\$ 2,420,706	\$ 2,437,234	\$ -	\$ -
Total component unit	\$ 2,420,706	\$ 2,437,234	\$ -	\$ -
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 as previously reported				
Prior period adjustment				
Net assets, beginning as restated				
Net assets, ending				

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

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
\$ (1,063,633)	\$ -	\$ (1,063,633)	\$ -
(2,614,654)	-	(2,614,654)	-
(1,614,103)	-	(1,614,103)	-
(114,716)	-	(114,716)	-
(175,312)	-	(175,312)	-
(34,221)	-	(34,221)	-
(5,616,639)	-	(5,616,639)	-
-	259,768	259,768	-
-	259,768	259,768	-
(5,616,639)	259,768	(5,356,871)	-
-	-	-	16,528
-	-	-	16,528
3,425,440	-	3,425,440	-
1,188,700	-	1,188,700	-
443,487	-	443,487	-
167,452	-	167,452	-
94,111	26,798	120,909	486
25,857	-	25,857	2,327
(78,863)	78,863	-	-
5,266,184	105,661	5,371,845	2,813
(350,455)	365,429	14,974	19,341
6,838,212	11,905,815	18,744,027	286,529
(264,840)	-	(264,840)	-
6,573,372	11,905,815	18,479,187	286,529
\$ 6,222,917	\$ 12,271,244	\$ 18,494,161	\$ 305,870

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

CITY OF BREVARD, NORTH CAROLINA

Exhibit 3

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	Major Funds			Total Governmental Funds
	General	Capital Reserve	Total Non- Major Funds	
ASSETS				
Cash and cash equivalents	\$ 2,143,020	\$ 956,488	\$ 120,026	\$ 3,219,534
Receivables, net:				
Taxes	52,197	-	-	52,197
Accounts	126,095	-	13,571	139,666
Due from other governments	557,377	-	-	557,377
Due from other funds	108,731	-	14,683	123,414
Inventories	58,269	-	-	58,269
Total assets	<u>3,045,689</u>	<u>956,488</u>	<u>148,280</u>	<u>4,150,457</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	42,995	-	-	42,995
Due to other funds	-	-	29,055	29,055
Deferred revenue	52,197	-	-	52,197
Unearned revenue	18,150	-	-	18,150
Total liabilities	<u>113,342</u>	<u>-</u>	<u>29,055</u>	<u>142,397</u>
Fund balances:				
Reserved for:				
Inventories	58,269	-	-	58,269
Perpetual maintenance:				
Expendable	-	-	828	828
Nonexpendable	-	-	55,440	55,440
State statute	792,203	-	28,254	820,457
Unreserved, designated for subsequent year's expenditures	116,597	-	34,703	151,300
Unreserved, undesignated	1,965,278	956,488	-	2,921,766
Total fund balances	<u>2,932,347</u>	<u>956,488</u>	<u>119,225</u>	<u>4,008,060</u>
Total liabilities and fund balances	<u>\$ 3,045,689</u>	<u>\$ 956,488</u>	<u>\$ 148,280</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,200,037
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.	15,542
Liabilities for earned but deferred revenues in fund statements.	52,197
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.	<u>(1,052,919)</u>
Net assets of governmental activities	<u>\$ 6,222,917</u>

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

CITY OF BREVARD, NORTH CAROLINA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007**

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Non- Major Funds</u>	
REVENUES				
Ad valorem taxes	\$ 3,215,754	\$ -	\$ 244,721	\$ 3,460,475
Other taxes and licenses	1,246,987	-	-	1,246,987
Unrestricted intergovernmental	848,072	-	-	848,072
Restricted intergovernmental	266,125	-	425,386	691,511
Permits and fees	-	66,460	-	66,460
Sales and services	964,631	-	-	964,631
Investment earnings	77,094	15,719	5,856	98,669
Miscellaneous	2,519	6,446	-	8,965
Total revenues	6,621,182	88,625	675,963	7,385,770
EXPENDITURES				
Current:				
General government	1,463,502	2	-	1,463,504
Public safety	2,669,149	-	-	2,669,149
Public works	2,352,863	-	-	2,352,863
Economic and physical development	-	-	456,583	456,583
Culture and recreation	93,451	-	369,989	463,440
Debt service:				
Principal	112,436	-	-	112,436
Interest and other charges	34,359	-	-	34,359
Total expenditures	6,725,760	2	826,572	7,552,334
Excess (deficiency) of revenues over expenditures	(104,578)	88,623	(150,609)	(166,564)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	461,119	175,000	291,941	928,060
Transfers to other funds	(289,391)	(570,413)	(147,119)	(1,006,923)
Total other financing sources (uses)	171,728	(395,413)	144,822	(78,863)
Net change in fund balance	67,150	(306,790)	(5,787)	(245,427)
Fund balances, beginning	2,865,197	1,263,278	125,012	4,253,487
Fund balances, ending	\$ 2,932,347	\$ 956,488	\$ 119,225	\$ 4,008,060

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

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, 2007**

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

Net changes in fund balances - total governmental funds	\$ (245,427)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period	(193,226)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	(39,593)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	15,355
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.	<u>112,436</u>
Total changes in net assets of governmental activities	<u>\$ (350,455)</u>

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, 2007

	General Fund			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 3,166,500	\$ 3,166,500	\$ 3,215,754	\$ 49,254
Other taxes and licenses	1,136,200	1,136,200	1,246,987	110,787
Unrestricted intergovernmental	726,500	726,500	848,072	121,572
Restricted intergovernmental	271,250	271,250	266,125	(5,125)
Permits and fees	-	-	-	-
Sales and services	926,170	926,170	964,631	38,461
Investment earnings	35,050	35,050	77,094	42,044
Miscellaneous	12,000	12,000	2,519	(9,481)
Total revenues	6,273,670	6,273,670	6,621,182	347,512
Expenditures:				
Current:				
General government	1,880,953	1,544,453	1,463,502	80,951
Public safety	2,284,342	2,710,342	2,669,149	41,193
Public works	2,261,988	2,436,488	2,352,863	83,625
Cultural and recreation	8,200	58,200	93,451	(35,251)
Debt service:				
Principal retirement	112,436	112,436	112,436	-
Interest and other charges	34,399	34,399	34,359	40
Total expenditures	6,582,318	6,896,318	6,725,760	170,558
Revenues over (under) expenditures	(308,648)	(622,648)	(104,578)	518,070
Other financing sources (uses):				
Transfers from other funds	160,119	474,119	461,119	(13,000)
Transfers to other funds	(45,000)	(45,000)	(289,391)	(244,391)
Fund balance appropriated	193,529	193,529	-	(193,529)
Total other financing sources (uses)	308,648	622,648	171,728	(450,920)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	67,150	\$ 67,150
Fund balances, beginning			2,865,197	
Fund balances, ending			\$ 2,932,347	

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

Exhibit 5

Capital Reserve Fund

Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	13,500	66,460	52,960
-	-	-	-
-	1,500	15,719	14,219
-	-	6,446	6,446
-	15,000	88,625	73,625
15,000	190,000	2	189,998
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
15,000	190,000	2	189,998
(15,000)	(175,000)	88,623	263,623
15,000	175,000	175,000	-
-	(567,863)	(570,413)	(2,550)
-	567,863	-	(567,863)
15,000	175,000	(395,413)	(570,413)
\$ -	\$ -	(306,790)	\$ (306,790)
		<u>1,263,278</u>	
		<u>\$ 956,488</u>	

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, 2007

	<u>Major Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 389,139
Accounts receivable (net)	236,534
Due from other governments	244,085
Prepaid Assets	76,617
Total current assets	<u>946,375</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	<u>95,467</u>
Capital assets:	
Land and other non-depreciable assets	212,891
Other capital assets, net of depreciation	12,295,128
Capital assets (net)	<u>12,508,019</u>
Total noncurrent assets	<u>12,603,486</u>
Total assets	<u>13,549,861</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	68,080
Customer deposits	95,467
Due to other funds	94,359
Installment contracts- current	94,725
Total current liabilities	<u>352,631</u>
Noncurrent liabilities:	
Other noncurrent liabilities:	
Compensated absences	73,000
Installment contracts - noncurrent (net)	852,986
Total noncurrent liabilities	<u>925,986</u>
Total liabilities	<u>1,278,617</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,560,308
Unrestricted	710,936
Total net assets	<u>\$ 12,271,244</u>

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 For the Year Ended June 30, 2007

	Major Enterprise Fund
	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 2,872,829
Water and sewer taps	54,836
Other operating revenues	51,690
Total operating revenues	2,979,355
OPERATING EXPENSES	
Water treatment and distribution	1,027,577
Waste collection and treatment	1,272,245
Payment to general fund in lieu of taxes & admin expenses	250,000
Depreciation	367,690
Total operating expenses	2,917,512
Operating income	61,843
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	26,798
Interest and other fees	(46,160)
Total nonoperating revenue (expenses)	(19,362)
Income before contributions and transfers	42,481
Capital contributions	244,085
Transfers from other funds	253,863
Transfers to other funds	(175,000)
Change in net assets	365,429
Total net assets, beginning	11,905,815
Total net assets, ending	\$ 12,271,244

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 Year Ended June 30, 2007

	<u>Major Enterprise Fund</u> <u>Water and</u> <u>Sewer</u> <u>Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,002,795
Cash paid for goods and services	(1,433,159)
Cash paid to or on behalf of employees for services	(1,073,629)
Customer deposits received	<u>16,519</u>
Net cash provided by operating activities	<u>512,526</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	<u>(175,000)</u>
Net cash used by noncapital financing activities	<u>(175,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers from other funds	253,863
Borrowed from other funds	94,359
Acquisition and construction of capital assets	(597,883)
Principal paid on bond maturities and equipment contracts	(94,725)
Interest paid on bond maturities and equipment contracts	<u>(46,160)</u>
Net cash used by capital and related financing activities	<u>(390,546)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>26,798</u>
Net cash provided by investing activities	<u>26,798</u>
Net decrease in cash and cash equivalents	(26,222)
Balances, beginning	510,828
Balances, ending	<u>\$ 484,606</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	<u>\$ 61,843</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	367,690
Changes in assets and liabilities:	
Decrease in accounts receivable	23,440
Increase in prepaid assets	(28,799)
Increase in accounts payable and accrued liabilities	63,833
Increase in customer deposits	16,519
Increase in accrued vacation pay	8,000
Total adjustments	<u>450,683</u>
Net cash provided by operating activities	<u>\$ 512,526</u>

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, 2007

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the City of Brevard and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The City of Brevard is a municipal corporation that 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 (discrete presentation). 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 funds:

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 Reserve Fund. The Wayfinding Capital Reserve Fund is used to account for resources for a downtown signage and communication project.

Capital Projects Funds. Capital Projects Funds account 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.

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

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

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

The 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 2006 through February 2007 apply to the fiscal year ended June 30, 2007. 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, 2007 because they are intended to finance the City's operations during the 2008 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, 2006. 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 City has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

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.

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2007 - 2008 budget ordinance.

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 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)	\$ 7,740,858
Less accumulated depreciation	<u>(4,540,821)</u>
Net capital assets	3,200,037
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	15,542
Liabilities for revenue deferred but earned and therefore recorded in the fund statements but not the government-wide	52,197
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	(598,243)
Compensated absences and pension	(448,551)
Accrued interest payable	<u>(6,125)</u>
Total adjustment	<u>\$ 2,214,857</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 adjustment 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	\$ 200,559
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	(384,731)
Cost of disposed assets not in fund statements	(9,054)
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	112,436
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	138
Pension obligations	6,654
Accrued compensated absences	8,563
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, 2006	(20,100)
Recording of interest revenue deferred in fund statements at June 30, 2007	15,542
Reversal of deferred tax revenue recorded at July 1, 2006	(87,232)
Recording of tax receipts deferred in the fund statements as of June 30, 2007	52,197
Total adjustment	<u>\$ (105,028)</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.

Note 2 – Stewardship, Compliance and Accountability

Excess of expenditures over appropriations – The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the non-capital project funds. Project ordinances are adopted for the Capital Projects Funds. 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. Expenditures for the following were in excess of the amounts appropriated in the budget ordinance and project ordinances, respectively:

	Budgeted	Actual	Variance
General Fund:			
Recreation – Gallimore Road bike path \$	–	\$ 40,889	\$ 40,889
Special Revenue – Heart of Brevard	85,000	92,702	7,702
Capital Project –			
Pedestrian/Bikeway - II	189,240	248,210	58,970

Management and the governing board will more closely review the budget reports to ensure compliance in future years.

Note 3 – 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 has no formal policy regarding custodial credit

risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2007, the City's deposits had a carrying amount of \$3,348,679 and a bank balance of \$3,798,047. Of the bank balance, \$131,039 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 \$181,963 and the bank balance was \$202,088. All of the bank balance was covered by federal depository insurance. At June 30, 2007, the City's petty cash fund totaled \$450.

2. Investments

At June 30, 2007, the City of Brevard had \$355,011 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.

Note 4 - Receivables – Allowance for Doubtful Accounts

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	\$ 23,000
Allowance for uncollectible refuse collection fees	41,300
Water and Sewer Fund:	
Allowance for uncollectible utility receivables	159,900

Note 5 - Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2007, 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	<u>319,893</u>	<u>-</u>	<u>-</u>	<u>319,893</u>
Capital assets being depreciated:				
Buildings and Infrastructure	3,098,907	-	-	3,098,907
Equipment	665,483	72,192	-	737,675
Vehicles and motorized equipment	3,641,563	128,367	185,547	3,584,383
Total capital assets being depreciated	<u>7,405,953</u>	<u>200,559</u>	<u>185,547</u>	<u>7,420,965</u>
Less accumulated depreciation for:				
Buildings	1,471,997	98,766	-	1,570,763
Equipment	447,494	52,971	-	500,465
Vehicles and motorized equipment	2,413,091	232,994	176,492	2,469,593
Total accumulated depreciation	<u>4,332,582</u>	<u>\$ 384,731</u>	<u>\$ 176,492</u>	<u>4,540,821</u>
Total capital assets being depreciated, net	<u>3,073,371</u>			<u>2,880,144</u>
Governmental activities capital assets, net	<u>\$ 3,393,264</u>			<u>\$ 3,200,037</u>

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

General government	\$ 46,557
Public safety	154,033
Public works	140,539
Cultural and recreational	<u>43,602</u>
Total depreciation expense	<u>\$ 384,731</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 212,891	\$ -	\$ -	\$ 212,891
Construction in progress	-	497,948	-	497,948
Total capital assets not being depreciated	212,891	497,948	-	710,839
Capital assets being depreciated:				
Plant and distribution systems	16,861,222	-	-	16,861,222
Maintenance equipment and furniture	622,636	-	-	622,636
Vehicles	446,256	99,936	-	546,192
Total capital assets being depreciated	17,930,114	99,936	-	18,030,050
Less accumulated depreciation for:				
Plant and distribution systems	5,280,623	283,633	-	5,564,256
Maintenance equipment and furniture	283,997	44,889	-	328,886
Vehicles	300,560	39,168	-	339,728
Total accumulated depreciation	5,865,180	\$ 367,690	\$ -	6,232,870
Total capital assets being depreciated, net	12,064,934			11,797,180
Water and sewer fund capital assets, net	\$12,277,825			\$12,508,019

Discretely presented component unit:

Activity for the ABC Board for the year ended June 30, 2007 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Leasehold improvements	\$ 53,520	\$ -	\$ -	\$ 53,520
Office and store equipment	81,848	1,171	-	83,019
Law enforcement equipment	21,740	-	-	21,740
Total capital assets being depreciated	157,108	1,171	-	158,279
Less accumulated depreciation	83,346	\$ 16,572	\$ -	99,918
ABC Board capital assets, net	\$ 73,762			\$ 58,361

Note 6 - Pension Plan Obligations*Local 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 4.90% and 4.86%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 4.80% 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, 2007, 2006, and 2005 were \$174,786, \$162,222, and \$153,415, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2007, 2006, and 2005 were \$9,612, \$8,773, and \$8,767, respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

Law Enforcement Officers' Special Separation Allowance

1. 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, 2007, the Separation Allowance's membership consisted of:

Retirees receiving benefits	6
Active plan members	<u>21</u>
Total	<u>27</u>

A separate report was not issued for the plan.

2. 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.

3. 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.

The annual required contributions for the current year were determined as part of the December 31, 2006 actuarial valuation using the projected unit credit actuarial cost method.

The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases.

Actual Pension Cost and Net Pension Obligation - The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 41,425
Interest on net pension obligation	19,201
Adjustment to annual required contribution	<u>(15,595)</u>
Annual pension cost	45,031
Contributions made	<u>(51,685)</u>
Increase (decrease) in net pension obligation	(6,654)
Net pension obligation beginning of fiscal year	<u>264,840</u>
Net pension obligation end of fiscal year	<u>\$ 258,186</u>

3 Year Trend Information			
For Year Ended	Annual Pension	Percentage of APC	Net Pension
<u>June 30</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
2005	\$ 45,504	35.77%	\$ 229,172
2006	49,657	27.17%	264,840
2007	45,031	114.78%	258,186

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, 2007 were \$75,792, which consisted of \$50,692 from the City and \$25,100 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.

Other Post-Employment Benefit

According to a City resolution, the City provides post-employment health care benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the City. The City's retirees can purchase coverage for themselves or their dependents at the City's group rates. Currently 2 retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2007, the City made payments for post-employment health benefit premiums of \$11,264. The City obtains health care coverage through private insurers.

Note 7 - 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)	\$ -	\$ 18,150
Taxes receivable (General Fund)	52,197	-
Total	<u>\$ 52,197</u>	<u>\$ 18,150</u>

Note 8 - 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.

The City carries flood insurance through the National Flood Insurance Plan (NFIP). Because the City is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the City is eligible to purchase coverage of \$500,000 per structure through the NFIP.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City's funds are performance bonded through a commercial surety bond. The finance officer, clerk and City manager are each bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

Note 9 - 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 installment purchases as of June 30, 2007 are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 114,099	\$ 29,488	\$ 143,587	\$ 100,000	\$ 40,884	\$ 140,884
2009	115,811	24,569	140,380	105,275	35,609	140,884
2010	56,667	20,045	76,712	110,551	30,333	140,884
2011	56,667	16,838	73,505	115,826	25,058	140,884
2012	56,667	13,631	70,298	121,102	19,782	140,884
Next 4 years	198,332	22,453	220,785	394,957	27,696	422,653
	<u>\$ 598,243</u>	<u>\$ 127,024</u>	<u>\$ 725,267</u>	<u>\$ 947,711</u>	<u>\$ 179,362</u>	<u>\$ 1,127,073</u>

B. Bonds Payable

At June 30, 2007, there were no outstanding authorizations to issue bonds and no outstanding general obligation bonds and the City had a legal debt margin of \$51,000,000.

C. Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2007:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Installment contracts	\$ 1,042,436	\$ —	\$ 112,436	\$ 598,243	\$ 114,099
Compensated absences	198,928	—	8,563	190,365	—
Net pension obligations	264,840	—	6,654	258,186	—
	<u>\$ 1,174,447</u>	<u>\$ —</u>	<u>\$ 127,653</u>	<u>\$ 1,046,794</u>	<u>\$ 114,099</u>
Business-type activities:					
Installment contracts	\$ 1,042,436	\$ —	\$ 94,725	\$ 947,711	\$ 94,725
Compensated absences	65,000	8,000	—	73,000	—
Business-type activity long-term liabilities	<u>\$ 1,107,436</u>	<u>\$ 8,000</u>	<u>\$ 94,725</u>	<u>\$ 1,020,711</u>	<u>\$ 94,725</u>

The following is a summary of interest expense during the year ended June 30, 2007:

	Interest Expense
General fund	\$ 34,358
Water and sewer fund	46,159

Note 10 - Interfund Balances and Activity**Balances Due to/from Other Funds:**

Due to the General Fund from the Pedestrian/Bikeway Fund	\$ 25,935
Due to the General Fund from the Water and Sewer Fund	94,359
Due to the General Fund from the CDBG Fund	3,120
Due to the Wayfinding Fund from the General Fund	14,683

Transfers to/from Other Funds:

Transfers to/from other funds for the year ending
June 30, 2007, consist of the following:

From the Bjerg Fund to the General Fund	1,000
From the Fire District Fund to the General Fund	146,119
From the Capital Reserve Fund to the General Fund	314,000
From the General Fund to the Pedestrian/Bikeway Fund	289,391
From the Water and Sewer Fund to the Capital Reserve Fund	175,000
From the Capital Reserve Fund to the Downtown Master Plan Fund	2,550
From the Water and Sewer Capital Projects Fund	253,863

Note 11 - 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 12 - 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 13 - Related Party Transactions

The City purchased \$24,824 of goods during the calendar year 2006 from Harris Hardware and Farm Supply, Inc., which is operated by Mayor Jimmy Harris.

Note 14 - Prior Period Adjustment

The beginning government-wide net assets for governmental activities has been restated to reflect the correction of a prior period error. The law enforcement officers' net pension obligation as of June 30, 2006 of \$264,840 was not reported as a liability in the prior year report. The effect of the restatement reduces beginning governmental activities net assets by the amount of the adjustment.

REQUIRED SUPPLEMENTAL FINACIAL DATA

CITY OF BREVARD, NORTH CAROLINA

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b - a)/c)</u>
12/31/03	\$ -	\$ 390,570	\$ 390,570	0%	\$ 872,551	44.76%
12/31/04	-	421,770	421,770	0%	907,089	46.50%
12/31/05	-	387,589	387,589	0%	997,251	38.87%
12/31/06	-	677,482	677,482	0%	923,800	73.34%

CITY OF BREVARD, NORTH CAROLINA

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

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2005	\$ 45,504	35.8%
2006	49,657	28.2%
2007	45,031	114.8%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as a part of the actuarial valuations at the dates indicated.

Valuation date	December 31, 2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	24 years
Asset valuation period	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5% to 12.3%
Includes inflation at	3.75%
Cost of living adjustments	N/A

**INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

CITY OF BREVARD, NORTH CAROLINA

**GENERAL FUND
COMPARATIVE BALANCE SHEET
June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents	\$ 2,143,020	\$ 2,240,901
Receivables (net):		
Ad valorem taxes	52,197	87,232
Accounts receivable	126,095	133,174
Due from other governments	557,377	511,922
Due from other funds	108,731	28,856
Inventories	58,269	41,426
	<u>\$ 3,045,689</u>	<u>\$ 3,043,511</u>
 Liabilities and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	\$ 42,995	\$ 57,541
Deferred revenues	52,197	87,232
Unearned revenues	18,150	33,541
Total liabilities	<u>113,342</u>	<u>178,314</u>
 Fund balances:		
Reserved for inventories	58,269	41,426
Reserved by State statute	792,203	673,952
Unreserved:		
Designated for subsequent years' expenditures	116,597	173,529
Undesignated	1,965,278	1,976,290
Total fund balances	<u>2,932,347</u>	<u>2,865,197</u>
	<u>\$ 3,045,689</u>	<u>\$ 3,043,511</u>

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 For the year ended June 30, 2007
 With comparative actual amounts for the year ended June 30, 2006

	2007		Variance Positive (Negative)	2006
	Budget	Actual		Actual
Revenues				
Ad Valorem Taxes:				
Current year	\$ 3,080,000	\$ 3,118,121	\$ 38,121	\$ 2,994,214
Prior years	70,500	79,221	8,721	75,672
Penalties and interest	18,500	20,212	1,712	24,468
Refunds paid on ad valorem tax	(2,500)	(1,800)	700	(2,218)
	<u>3,166,500</u>	<u>3,215,754</u>	49,254	<u>3,092,136</u>
Other Taxes and Licenses:				
Local option sales tax	1,107,200	1,188,700	81,500	1,193,684
Privilege licenses	20,000	22,564	2,564	21,009
Zoning administration	9,000	35,723	26,723	11,533
	<u>1,136,200</u>	<u>1,246,987</u>	110,787	<u>1,226,226</u>
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	285,000	345,773	60,773	322,321
Beer and wine taxes	29,000	30,858	1,858	30,013
Utilities franchise tax - CATV	40,000	39,292	(708)	17,498
City narcotics investigation	10,000	9,697	(303)	36,693
City of Brevard ABC Board	107,500	167,452	59,952	130,206
	<u>726,500</u>	<u>848,072</u>	121,572	<u>791,731</u>
Restricted Intergovernmental Revenues:				
State street aid allocation	225,000	220,678	(4,322)	224,355
Court facilities fees	7,000	6,624	(376)	6,893
Grant from Insurance Carrier	1,750	1,750	-	5,223
P.O. GEBG Grant	37,500	21,079	(16,421)	78,356
Grant - Dept. of Homeland Security	-	-	-	2,551
Storm water grant	-	15,994	15,994	-
	<u>271,250</u>	<u>266,125</u>	(5,125)	<u>317,378</u>

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

For the year ended June 30, 2007

With comparative actual amounts for the year ended June 30, 2006

	2007		Variance Positive (Negative)	2006
	Budget	Actual		Actual
Sales and Services:				
Recreation department fees	-	-	-	9,378
Recycling revenue	36,000	44,047	8,047	39,548
Storm water fee	-	900	900	-
Rents	30,000	24,553	(5,447)	22,500
Parking violation penalties	8,500	7,230	(1,270)	9,800
Refuse collection fees	512,000	515,142	3,142	515,102
Vehicle maintenance	296,000	306,198	10,198	279,062
Sale of fixed assets	-	22,891	22,891	1,960
School resource officer	43,670	43,670	-	37,639
	<u>926,170</u>	<u>964,631</u>	<u>38,461</u>	<u>914,989</u>
Investment earnings	35,050	77,094	42,044	64,553
Miscellaneous:				
Other	12,000	2,519	(9,481)	31,574
Total revenues	<u>6,273,670</u>	<u>6,621,182</u>	<u>347,512</u>	<u>6,438,587</u>
Expenditures				
General Government:				
Governing Body:				
Salaries and employee benefits		33,279		33,684
Other operating expenses		29,160		27,503
		<u>65,650</u>	<u>3,211</u>	<u>61,187</u>
Administration:				
Salaries and employee benefits		162,807		134,442
Other operating expenses		52,527		58,995
		<u>217,914</u>	<u>2,580</u>	<u>193,437</u>
City Clerk:				
Salaries and employee benefits		70,638		62,810
Other operating expenses		29,578		31,334
Capital Outlay		-		7,620
		<u>116,292</u>	<u>16,076</u>	<u>101,764</u>

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

For the year ended June 30, 2007

With comparative actual amounts for the year ended June 30, 2006

	2007		Variance Positive (Negative)	2006
	Budget	Actual		Actual
General Government (continued):				
Finance:				
Salaries and employee benefits		205,242		187,334
Other operating expenses		100,211		77,123
Equipment		64,223		38,018
	382,983	369,676	13,307	302,475
Tax Collector:				
Other operating expenses	105,000	97,201	7,799	93,146
Legal:				
Other operating expenses	100,000	97,115	2,885	45,208
Planning:				
Salaries and employee benefits		252,624		203,204
Other operating expenses		128,935		116,687
	392,551	381,559	10,992	319,891
Special Appropriations:				
Rescue squad		3,600		4,500
Arts Council		4,000		5,000
Chamber of Commerce		3,500		3,500
Heart of Brevard		20,000		20,000
SAFE		4,800		6,000
Transylvania Dispute Settlement Center		3,200		4,000
Boys/Girls		11,000		10,000
	50,100	50,100	-	53,000
Personnel:				
Salaries and employee benefits		56,188		75,827
Other operating expenses		33,674		17,911
	113,963	89,862	24,101	93,738
Total General Government	1,544,453	1,463,502	80,951	1,263,846
Public Safety:				
Police:				
Salaries and employee benefits		1,929,984		1,797,210
Other operating expenses		390,964		315,801
Capital outlay		99,491		70,488
	2,422,505	2,420,439	2,066	2,183,499

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 For the year ended June 30, 2007
 With comparative actual amounts for the year ended June 30, 2006

	2007		Variance Positive (Negative)	2006
	Budget	Actual		Actual
Public Safety (continued):				
Fire:				
Salaries and employee benefits		115,930		80,540
Other operating expenses		132,780		129,422
Capital outlay		-		21,221
	287,837	248,710	39,127	231,183
Total public safety	2,710,342	2,669,149	41,193	2,414,682
Public Works:				
Administration:				
Salaries and employee benefits		125,883		87,580
Other operating expenses		64,621		57,770
Capital outlay		23,297		-
	220,917	213,801	7,116	145,350
Central Maintenance:				
Salaries and employee benefits		136,615		130,198
Other operating expenses		246,840		305,459
	401,622	383,455	18,167	435,657
Streets:				
Salaries and employee benefits		105,431		99,467
Other operating expenses		156,164		142,022
	269,531	261,595	7,936	241,489
Powell Aid				
Salaries and employee benefits		211,711		191,834
Other operating expenses		230,950		188,856
Capital outlay		-		65,575
	459,332	442,661	16,671	446,265
Building and Grounds:				
Salaries and employee benefits		212,290		195,325
Other operating expenses		165,005		145,839
Capital outlay		-		53,047
	403,544	377,295	26,249	394,211

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 For the year ended June 30, 2007
 With comparative actual amounts for the year ended June 30, 2006

	2007		Variance Positive (Negative)	2006
	Budget	Actual		Actual
Public Works (continued):				
Sanitation:				
Salaries and employee benefits		328,489		292,154
Other operating expenses		345,567		320,572
	681,542	674,056	7,486	612,726
Total public works	2,436,488	2,352,863	83,625	2,275,698
Recreation:				
Recreation Department:				
Salaries and employee benefits		-		17,068
Other operating expenses		52,562		41,588
	58,200	52,562	5,638	58,656
Other Recreation - Gallimore Rd. bike path:				
Engineering and feasibility study	-	40,889	(40,889)	-
Total recreation	58,200	93,451	(35,251)	58,656
Debt service:				
Principal retirement		112,436		110,821
Interest		34,359		32,862
	146,835	146,795	40	143,683
Total expenditures	6,896,318	6,725,760	170,558	6,156,565
Revenue over (under) expenditures	(622,648)	(104,578)	518,070	282,022
Other Financing Sources (Uses):				
Operating transfers from other funds:				
Bjerg Fund	1,000	1,000	-	1,103
Fire District Fund	159,119	146,119	(13,000)	131,000
Capital Reserve Fund	314,000	314,000	-	69,500
Operating transfers to other funds:				
Pedestrian/Bikeway Capital Project	(45,000)	(289,391)	(244,391)	-
Capital Reserve Fund	-	-	-	(250,000)
Fund balance appropriated	193,529	-	(193,529)	-
	622,648	171,728	(450,920)	(48,397)
Revenues and other sources over expenditures and other uses	\$ -	67,150	\$ 67,150	233,625
Fund Balances:				
Beginning of year		2,865,197		2,631,572
Fund balance, end of year		\$ 2,932,347		\$ 2,865,197

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, 2007
With comparative actual amounts for the year ended June 30, 2006**

	2007		Variance Positive (Negative)	2006
	Budget	Actual		Actual
Revenues:				
Impact fees - water and sewer	\$ 13,500	\$ 66,460	\$ 52,960	\$ 103,664
Investment earnings	1,500	15,719	14,219	10,250
Transylvania County and others	-	6,446	6,446	18,195
Total revenues	15,000	88,625	73,625	132,109
Expenditures:				
Capital projects	190,000	2	189,998	2,975
Revenues over expenditures	(175,000)	88,623	263,623	129,134
Other Financing Sources (Uses):				
Operating transfers from (to)				
General Fund	-	-	-	250,000
Water and sewer fund	175,000	175,000	-	210,767
General Fund	(314,000)	(314,000)	-	(69,500)
Water and sewer capital projects funds	(253,863)	(253,863)	-	-
Downtown master plan fund	-	(2,550)	(2,550)	(358,677)
Fund balance appropriated	567,863	-	(567,863)	-
Total other financing sources (uses)	175,000	(395,413)	(570,413)	32,590
Revenues and other sources over (under) expenditures and other uses	\$ -	(306,790)	\$ (306,790)	161,724
Fund balance, beginning of year		1,263,278		1,101,554
Fund balance, end of year		\$ 956,488		\$ 1,263,278

CITY OF BREVARD, NORTH CAROLINA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2007

	<u>Special Revenue</u>		<u>Capital Reserve</u>
	<u>Special Fire District Fund</u>	<u>Heart of Brevard Municipal Service District Fund</u>	<u>Wayfinding</u>
Assets			
Cash and cash equivalents	\$ 20,411	\$ 582	\$ -
Accounts receivable, net	11,534	-	-
Due from other funds	-	-	14,683
Total assets	\$ 31,945	\$ 582	\$ 14,683
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Fund balances:			
Reserved by State Statute	11,534	-	14,683
Restricted by Donor	-	-	-
Unreserved	20,411	582	-
	31,945	582	14,683
Total liabilities and fund balances	\$ 31,945	\$ 582	\$ 14,683

Capital Projects			Permanent	Total Nonmajor
Pedestrian Bikeway Project Fund	CDBG Revitalization	Downtown Master Plan	Non-expend Bjerg Trust Fund	Governmental Funds
\$ 25,935	\$ 10,384	\$ 6,446	\$ 56,268	\$ 120,026
-	-	2,037	-	13,571
-	-	-	-	14,683
<u>\$ 25,935</u>	<u>\$ 10,384</u>	<u>\$ 8,483</u>	<u>\$ 56,268</u>	<u>\$ 148,280</u>
\$ -	\$ -	\$ -	\$ -	\$ -
25,935	3,120	-	-	29,055
<u>25,935</u>	<u>3,120</u>	-	-	<u>29,055</u>
-	-	2,037	-	28,254
-	-	-	55,440	55,440
-	7,264	6,446	828	35,531
-	<u>7,264</u>	<u>8,483</u>	<u>56,268</u>	<u>119,225</u>
<u>\$ 25,935</u>	<u>\$ 10,384</u>	<u>\$ 8,483</u>	<u>\$ 56,268</u>	<u>\$ 148,280</u>

CITY OF BREVARD, NORTH CAROLINA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007**

	<u>Special Revenue</u>		<u>Capital Reserve</u>
	Heart of Brevard		<u>Wayfinding</u>
	<u>Fire District Fund</u>	<u>Municipal Service District Fund</u>	
Revenues:			
Ad valorem taxes	\$ 151,586	\$ 93,135	\$ -
Restricted intergovernmental	-	-	14,683
Sales and services	-	-	-
Investment earnings	3,812	149	-
	<hr/>	<hr/>	<hr/>
Total revenues	155,398	93,284	14,683
	<hr/>	<hr/>	<hr/>
Expenditures:			
Economic and physical development	-	92,702	-
Recreational	-	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	-	92,702	-
	<hr/>	<hr/>	<hr/>
Revenues over expenditures	155,398	582	14,683
	<hr/>	<hr/>	<hr/>
Other Financing Sources (Uses)			
Transfers in:			
General fund	-	-	-
Capital reserve fund	-	-	-
Transfers out:			
General fund	(146,119)	-	-
Total other financing sources (uses)	(146,119)	-	-
	<hr/>	<hr/>	<hr/>
Net change in fund balances	9,279	582	14,683
	<hr/>	<hr/>	<hr/>
Fund balance, beginning	22,666	-	-
	<hr/>	<hr/>	<hr/>
Fund balance, ending	<u>\$ 31,945</u>	<u>\$ 582</u>	<u>\$ 14,683</u>

Capital Projects			Permanent	Total Nonmajor
Pedestrian Bikeway Project Fund	CDBG Revitalization	Downtown Master Plan	Non-expend Bjerg Trust Fund	Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 244,721
83,520	327,183	-	-	425,386
-	-	-	-	-
411	165	319	1,000	5,856
83,931	327,348	319	1,000	675,963
-	330,303	33,578	-	456,583
369,989	-	-	-	369,989
369,989	330,303	33,578	-	826,572
(286,058)	(2,955)	(33,259)	1,000	(150,609)
289,391	-	-	-	289,391
-	-	2,550	-	2,550
-	-	-	(1,000)	(147,119)
289,391	-	2,550	(1,000)	144,822
3,333	(2,955)	(30,709)	-	(5,787)
(3,333)	10,219	39,192	56,268	125,012
\$ -	\$ 7,264	\$ 8,483	\$ 56,268	\$ 119,225

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, 2007
With comparative actual amounts for the year ended June 30, 2006**

	2007		Variance Positive (Negative)	2006
	Budget	Actual		Actual
Revenues:				
Ad valorem taxes	\$ 158,119	\$ 151,586	\$ (6,533)	\$ 138,246
Investment earnings	1,000	3,812	2,812	2,826
Total revenues	<u>159,119</u>	<u>155,398</u>	<u>(3,721)</u>	<u>141,072</u>
Expenditures:				
Miscellaneous	-	-	-	182
Revenues over expenditures	<u>159,119</u>	<u>155,398</u>	<u>(3,721)</u>	<u>140,890</u>
Other Financing Uses:				
Operating transfer to other funds:				
General fund (for Fire Department expenditures)	159,119	146,119	13,000	(131,000)
Total other financing uses	<u>159,119</u>	<u>146,119</u>	<u>13,000</u>	<u>(131,000)</u>
Revenues and other sources over other uses	<u>\$ -</u>	<u>9,279</u>	<u>\$ 9,279</u>	<u>9,890</u>
Fund balance, beginning of year		<u>22,666</u>		<u>12,776</u>
Fund balance, end of year		<u>\$ 31,945</u>		<u>\$ 22,666</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, 2007
With comparative actual amounts for the year ended June 30, 2006

	2007		Variance Positive (Negative)	2006
	Budget	Actual		Actual
Revenues:				
Ad valorem taxes	\$ 84,975	\$ 93,135	\$ 8,160	\$ 81,622
Investment earnings	25	149	124	118
Total revenues	85,000	93,284	8,284	81,740
Expenditures:				
Current:				
Contracted services	85,000	92,702	(7,702)	81,740
Revenues over expenditures	<u>\$ -</u>	<u>582</u>	<u>\$ 582</u>	-
		-		-
Fund balance, beginning of year				
Fund balance, end of year		<u>\$ 582</u>		<u>\$ -</u>

CITY OF BREVARD, NORTH CAROLINA

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

For the year ended June 30, 2007

With comparative actual amounts for the year ended June 30, 2006

	2007		Variance Positive (Negative)	2006
	Budget	Actual		Actual
Revenues:				
TDA grant	\$ 15,000	\$ 14,683	\$ (317)	\$ -
Total revenues	15,000	14,683	(317)	-
Expenditures:				
Capital projects	36,750	-	36,750	-
Revenues over expenditures	(21,750)	14,683	36,433	-
Other Financing Sources:				
Operating transfers from General Fund	21,750	-	(21,750)	-
Total other financing sources	21,750	-	(21,750)	-
Revenues and other sources over expenditures	<u>\$ -</u>	<u>14,683</u>	<u>\$ 14,683</u>	-
Fund balance, beginning of year		-		-
Fund balance, end of year		<u>\$ 14,683</u>		<u>\$ -</u>

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, 2007**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
N.C. recreation trails grant - Phase II	\$ 60,000	\$ -	\$ 62,800	\$ 62,800
N.C. recreation trails grant - Phase III	207,200	-	20,720	20,720
Investment earnings	-	-	411	411
Total revenues	267,200	-	83,931	83,931
Expenditures:				
Engineering, design and construction - Phase II	189,240	3,333	248,210	251,543
Engineering, design and construction - Phase III	403,773	-	121,779	121,779
Total expenditures	593,013	3,333	369,989	373,322
Revenues over (under) expenditures	(325,813)	(3,333)	(286,058)	(289,391)
Other Financing Sources:				
Transfers from General Fund - Phase II	129,240	-	188,332	188,332
Transfers from General Fund - Phase III	196,573	-	101,059	101,059
Total other financing sources	325,813	-	289,391	289,391
Revenues and other financing sources over (under) expenditures	\$ -	\$ (3,333)	3,333	\$ -
Fund balance, beginning of year			(3,333)	
Fund balance, end of year			\$ -	

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, 2007**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Grant-05-C-1458 Rosenwald Year 4	\$ 350,000	\$ 14,870	\$ 327,183	\$ 342,053
Grant-06-C-1590 Rosenwald Year 5	350,000	-	-	-
Transfer from General Fund	-	10,000	-	10,000
Interest	-	219	165	384
Total revenues	700,000	25,089	327,348	352,437
Expenditures:				
Grant-05-C-1458 Rosenwald year 4:				
Parks, playground, recreation facilities	40,000	-	40,000	40,000
Flood & drainage improvements	148,000	2,600	145,400	148,000
Public services	2,500	-	1,628	1,628
Housing rehabilitation	37,500	700	34,765	35,465
Other activities	69,500	11,570	52,890	64,460
Administration	52,500	-	52,500	52,500
	<u>350,000</u>	<u>14,870</u>	<u>327,183</u>	<u>342,053</u>
Grant-06-C-1590 Rosenwald year 5:				
Parks, playground, recreation facilities	38,000	-	-	-
Flood & drainage improvements	178,000	-	-	-
Housing rehabilitation	27,000	-	-	-
Home ownership - Neighborhood	54,500	-	-	-
Administration	52,500	-	3,120	3,120
	<u>350,000</u>	<u>-</u>	<u>3,120</u>	<u>3,120</u>
Total expenditures	700,000	14,870	330,303	345,173
Revenues over (under) expenditures	\$ -	\$ 10,219	(2,955)	\$ 7,264
Fund balance, beginning of year			10,219	
Fund balance, end of year			\$ 7,264	

CITY OF BREVARD, NORTH CAROLINA

**DOWNTOWN MASTER PLAN CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
From inception and for the year ended June 30, 2007**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ 1,462	\$ 319	\$ 1,781
Total revenues	<u>-</u>	<u>1,462</u>	<u>319</u>	<u>1,781</u>
Expenditures:				
Construction	358,677	320,947	33,578	354,525
Revenues under expenditures	<u>(358,677)</u>	<u>(319,485)</u>	<u>(33,259)</u>	<u>(352,744)</u>
Other Financing Sources:				
Operating transfer from other funds:				
Capital Reserve fund	358,677	358,677	2,550	361,227
Total other financing sources	<u>358,677</u>	<u>358,677</u>	<u>2,550</u>	<u>361,227</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 39,192</u>	<u>(30,709)</u>	<u>\$ 8,483</u>
Fund balance, beginning of year			<u>39,192</u>	
Fund balance, end of year			<u>\$ 8,483</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, 2007

With comparative actual amounts for the year ended June 30, 2006

	2007			2006
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues:				
Investment earnings	\$ 1,000	\$ 1,000	\$ -	\$ 1,727
Other Financing Uses:				
Transfer to General Fund - (for French Broad Community Center Improvements)	1,000	1,000	-	1,103
Revenues over other uses	\$ -	-	\$ -	624
Fund balance, beginning of year		56,268		55,644
Fund balance, end of year		\$ 56,268		\$ 56,268

CITY OF BREVARD, NORTH CAROLINA

**WATER AND SEWER FUND
STATEMENT OF NET ASSETS
June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 389,139	\$ 431,880
Accounts receivable (net)	236,534	259,974
Due from other governments	244,085	-
Prepaid Assets	76,617	47,818
Total current assets	<u>946,375</u>	<u>739,672</u>
Restricted assets:		
Cash and cash equivalents	<u>95,467</u>	78,948
Capital assets (net)	<u>12,508,019</u>	12,277,826
Total assets	<u>13,549,861</u>	<u>13,096,446</u>
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	68,080	4,247
Due to other funds	94,359	-
Installment contracts - current	94,725	94,725
Total current liabilities	<u>257,164</u>	98,972
Current liabilities payable from restricted assets:		
Customer deposits	<u>95,467</u>	78,948
Noncurrent liabilities:		
Compensated absences	73,000	65,000
Installment contracts - noncurrent (net)	852,986	947,711
Total noncurrent liabilities	<u>925,986</u>	1,012,711
Total liabilities	<u>1,278,617</u>	1,190,631
Net Assets		
Invested in capital assets, net of related debt	11,560,308	11,235,390
Unrestricted	710,936	670,425
Total net assets	<u>\$ 12,271,244</u>	<u>\$ 11,905,815</u>

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

For the year ended June 30, 2007

With comparative actual amounts for the year ended June 30, 2006

	2007		Variance Positive (Negative)	2006
	Budget	Actual		Actual
Revenues:				
Operating Revenues:				
Charges for utilities:				
Water	\$ 1,507,500	\$ 1,523,564	\$ 16,064	\$ 1,479,353
Sewer	1,348,500	1,421,040	72,540	1,298,234
Taps and connection fees:				
Water	15,000	36,399	21,399	37,204
Sewer	10,000	18,437	8,437	8,595
Other operating revenues	48,000	51,360	3,360	54,465
Total operating revenues	2,929,000	3,050,800	121,800	2,877,851
Nonoperating Revenues:				
Interest on investments	12,000	26,798	14,798	22,862
Contributions from developers	-	-	-	182,496
Other	-	330	330	875
Total nonoperating revenues	12,000	27,128	15,128	206,233
Total revenues	2,941,000	3,077,928	136,928	3,084,084
Expenditures:				
Water Service:				
Water Treatment:				
Salaries and employee benefits		310,056		271,459
Other operating expenses		271,188		254,355
	586,840	581,244	5,596	525,814
Water Distribution:				
Salaries and employee benefits		301,189		257,666
Other operating expenses		245,080		166,541
	565,733	546,269	19,464	424,207
Total water service	1,152,573	1,127,513	25,060	950,021

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

For the year ended June 30, 2007

With comparative actual amounts for the year ended June 30, 2006

	2007		Variance Positive (Negative)	2006
	Budget	Actual		Actual
Expenditures (continued):				
Sewer Service:				
Sewage Treatment:				
Salaries and employee benefits		324,313		367,160
Other operating expenses		312,096		308,115
	663,854	636,409	27,445	675,275
Sewer Maintenance:				
Salaries and employee benefits		276,071		185,041
Other operating expenses		259,829		238,636
Capital outlay		99,936		21,972
	640,024	635,836	4,188	445,649
Total sewer service	1,303,878	1,272,245	31,633	1,120,924
Debt Service				
Interest and fees		46,160		51,435
Debt principal		94,725		89,449
Total debt service	141,000	140,885	115	140,884
Payment to general fund in lieu of taxes and administrative expenses	250,000	250,000	-	250,000
Total expenditures	2,847,451	2,790,643	56,808	2,461,829
Revenues over expenditures	93,549	287,285	193,736	622,255
Other financing sources (uses):				
Transfer from Capital Reserve Fund	253,863	253,863	-	-
Transfer to Capital Reserve Fund	(175,000)	(175,000)	-	(210,767)
Transfer to Gallimore Rd. Sewer Rehab Capital Project Fund	(225,000)	(225,000)	-	-
Transfer to Gaia Capital Project Fund	(28,863)	(28,863)	-	-
Fund balance appropriated	81,451	-	(81,451)	-
Total other financing sources (uses)	(93,549)	(175,000)	(81,451)	(210,767)
Revenues and other sources over expenditures and other uses	\$ -	\$ 112,285	\$ 112,285	\$ 411,488

CITY OF BREVARD, NORTH CAROLINA

Page 3 of 3

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

For the year ended June 30, 2007

With comparative actual amounts for the year ended June 30, 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of Modified Accrual Basis to Full Accrual Basis:		
Revenues over (under) expenditures	\$ 112,285	\$ 411,488
Budgetary appropriations not affecting net income:		
Payment of debt principal	94,725	89,449
Capital Projects - Capital contributions	244,085	-
Transfers to Capital Projects funds	253,863	-
Capital outlay	99,936	21,972
Bad debt write offs	(71,775)	-
Depreciation	(367,690)	(376,760)
Net income	<u>\$ 365,429</u>	<u>\$ 146,149</u>

CITY OF BREVARD, NORTH CAROLINA

**GALLIMORE RD SEWER REHAB CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
From inception and for the year ended June 30, 2007**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:				
Rural Center grant	\$ 200,000	\$ -	\$ 157,115	\$ 157,115
Expenditures:				
Engineering, design and construction	425,000	-	382,115	382,115
Revenues over (under) expenditures	(225,000)	-	(225,000)	(225,000)
Other Financing Sources:				
Transfers from Utility Fund capital reserve	225,000	-	225,000	225,000
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ -</u>	

CITY OF BREVARD, NORTH CAROLINA

**GAIA WATER LINE CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
From inception and for the year ended June 30, 2007**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>
Revenues:				
Rural Center grant	\$ 60,000	\$ -	\$ 60,000	\$ 60,000
Transylvania County	16,200	-	-	-
Gaia Herbs contribution	28,800	-	26,970	26,970
	<hr/>		<hr/>	
Total revenues	105,000	-	86,970	86,970
Expenditures:				
Engineering, design and construction	133,863	-	115,833	115,833
	<hr/>		<hr/>	
Revenues over (under) expenditures	(28,863)	-	(28,863)	(28,863)
Other Financing Sources:				
Transfers from Utility Fund capital reserve	28,863	-	28,863	28,863
	<hr/>		<hr/>	
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning of year			<hr/>	
Fund balance, end of year			<u>\$ -</u>	

CITY OF BREVARD, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2007**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2006</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2007</u>
2006-2007	\$ -	\$ 3,167,789	\$ 3,144,436	\$ 23,353
2005-2006	56,650	-	45,664	10,986
2004-2005	17,222	-	9,956	7,266
2003-2004	11,308	-	5,376	5,933
2002-2003	12,057	-	2,332	9,726
2001-2002	8,359	-	2,530	5,829
2000-2001	5,206	-	1,193	4,013
1999-2000	4,302	-	1,108	3,194
1998-1999	4,236	-	1,376	2,859
1997-1998	3,340	-	1,303	2,038
1996-1997	2,551	-	2,551	-
	<u>\$ 125,231</u>	<u>\$ 3,167,789</u>	<u>\$ 3,217,824</u>	<u>75,197</u>
				<u>(23,000)</u>
				<u>\$ 52,197</u>
<u>Reconciliation with revenues:</u>				
				<u>\$ 3,215,754</u>
				<u>(20,212)</u>
				<u>2,552</u>
				<u>19,730</u>
				<u>2,070</u>
				<u>\$ 3,217,824</u>

CITY OF BREVARD, NORTH CAROLINA

**ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY**

For the Year Ended June 30, 2007

	City - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy	\$ 620,691,546	0.495	\$ 3,072,423	\$ 2,864,063	\$ 208,360
Discoveries	24,658,440		122,059	122,059	-
Abatements	<u>(5,392,609)</u>		<u>(26,693)</u>	<u>(26,693)</u>	<u>-</u>
Total property valuation	<u>\$ 639,957,377</u>				
Net levy			3,167,789	2,959,429	208,360
Uncollected taxes at June 30, 2007			<u>(23,353)</u>	<u>(8,353)</u>	<u>(15,000)</u>
Current year's taxes collected			<u>\$ 3,144,436</u>	<u>\$ 2,951,076</u>	<u>\$ 193,360</u>
Current levy collection percentage			<u>99.26%</u>	<u>99.72%</u>	<u>92.80%</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***

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, the discretely presented component units, 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, 2007, which collectively comprises the City of Brevard's basic financial statements, and have issued our report thereon dated January 30, 2008. 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 Brevard ABC Board were not audited in accordance with Governmental 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Brevard's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 07-1, 07-2, and 07-3 to be significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider 07-1 is a material weakness.

Compliance and Other Matters

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Brevard's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the 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
January 30, 2008

CITY OF BREVARD, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? yes no

- Significant deficiencies identified that are not considered to be material weaknesses yes none reported

Noncompliance material to financial statements noted yes no

Section II – Financial Statement Findings

07 – 1 Aggregate Material Adjusting Journal Entries

Criteria: Financial data should be recorded in accordance with generally accepted accounting principles as part of the preparation of the financial statements.

Condition: Transactions for Capital Projects Funds were recorded in the General Fund and Water & Sewer Fund's ledgers. Other accounts also required adjustment. These errors, if not corrected, would have caused the financial statements to be materially misstated.

Cause: The City failed to record capital projects in the correct funds and did not post all necessary journal entries.

Recommendation: Record all transactions to their proper fund. Maintain the accounts by periodically reviewing and adjusting as necessary.

Views of responsible officials and planned corrective actions: The City agrees with this finding and will implement the recommendation.

07 – 2 Financial Statement Preparation

Criteria: Financial Statements should be prepared in accordance with generally accepted accounting principles.

Condition: The City does not have the expertise to prepare the financial statements or record financial data relating to the preparation of the financial statements. The City relies on the external auditor for this function.

Cause: The City does not have the resources to invest in personnel with the required expertise to prepare financial statements, including necessary adjustments, in accordance with generally accepted accounting principles.

CITY OF BREVARD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2007

Recommendation: The City should assess the feasibility of providing personnel with the required knowledge and time to prepare the financial statements.

Views of responsible officials and planned corrective actions: The City acknowledges this finding.

07 – 3 Excess of Expenditures Over Appropriations

Criteria: 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.

Condition: Expenditures for the following were in excess of the amounts appropriated in the budget ordinance and project ordinances, respectively:

	Budgeted	Actual	Variance
General Fund:			
Recreation – Gallimore Road bike path	\$ –	\$ 40,889	\$ 40,889
Special Revenue – Heart of Brevard	85,000	92,702	7,702
Capital Project – Pedestrian/Bikeway – II	189,240	251,543	62,303

Effect: The City is in violation of the Local Government Budget and Fiscal Control Act.

Recommendation: Finance staff should monitor expenditures and budget authorizations to ensure expenditures do not exceed budget appropriations.

Views of responsible officials and planned corrective actions: The City agrees with this finding. Budget amendments will

be adopted prior to making expenditures that exceed budgeted amounts.

CITY OF BREVARD, NORTH CAROLINA

SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2007

<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-1458	14.228	\$ 327,183	\$ -
<u>N.C. Department of Transportation:</u>			
Powell Bill		-	220,678
Governor's Highway Safety Program	20.600	21,079	-
Bicycle/Pedestrian Trail	20.205	33,520	-
		<hr/>	<hr/>
Total assistance expended		<u>\$ 381,782</u>	<u>\$ 220,678</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.