

City of Brevard, North Carolina

Financial Statements

June 30, 2009

CITY OF BREVARD, NORTH CAROLINA

Mayor and City Council

Jimmy Harris

Larry Canady
Rodney Locks
Mack McKeller
Mac Morrow
Dee Dee Perkins

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brevard, North Carolina, as of and for the year ended June 30, 2009, 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 (a component unit) 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, 2009, 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 December 30, 2009, 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 and the Law Enforcement Officers' Special Separation Allowance's schedule of funding progress and schedule of employer contributions are 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 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 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

December 30, 2009

Management's Discussion and Analysis

As management of the City of Brevard, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. 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.

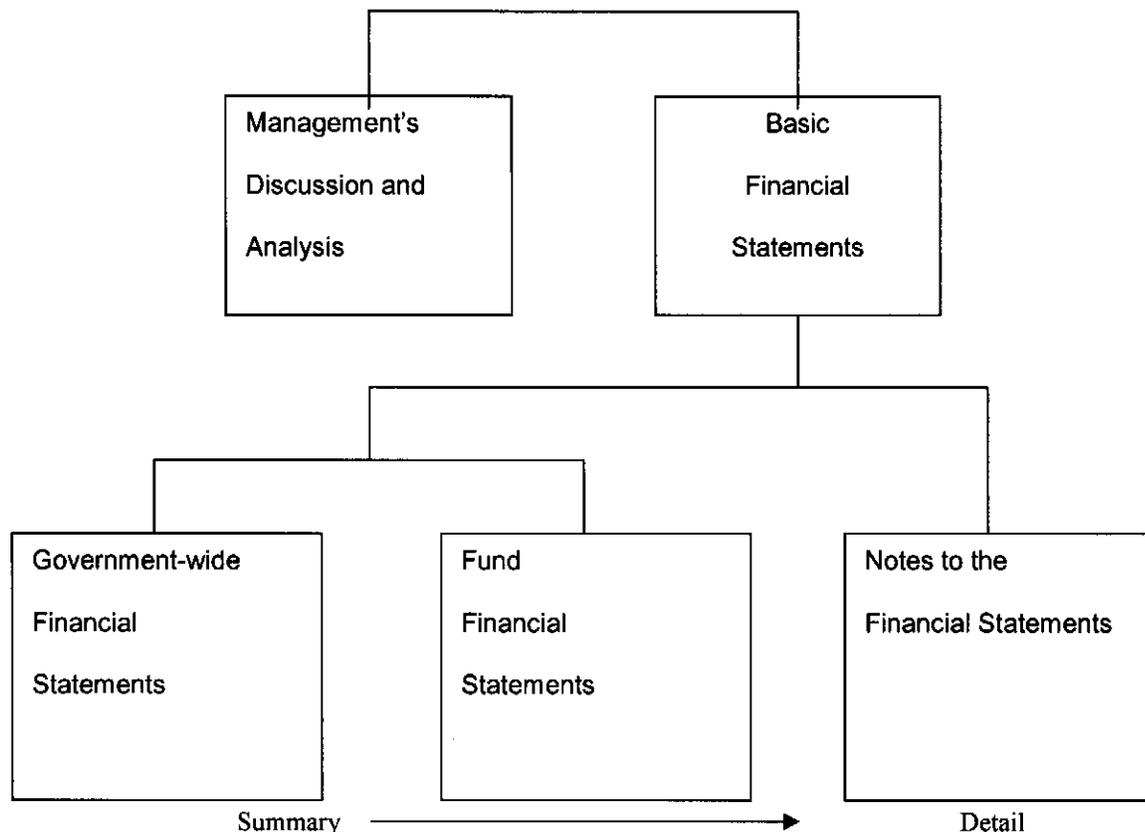
Financial Highlights

- The assets of the City of Brevard exceeded its liabilities at the close of the fiscal year by \$21,427,705 (net assets).
- The government's total net assets increased by \$1,077,914 primarily due to increases in the governmental activities net assets.
- Reductions in expenditures and the process in accounting for transfers led to the increase in governmental 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 \$6,087,951, an increase of \$51,047 in comparison with the prior year. Approximately 86 percent of this total amount, or \$5,253,006, 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 \$2,301,288 or 33 percent of total general fund expenditures for the fiscal year.
- The City of Brevard's total debt decreased by \$282,867 (10.69 percent) during the current fiscal year. The key factor in this decrease was due to principal repayments.
- 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 9) 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 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 24 through 40 of this report.

The City of Brevard's Net Assets
Figure 2

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 6,472,633	\$ 6,209,960	\$ 1,370,195	\$ 1,097,798	\$ 7,842,828	\$ 7,307,758
Capital assets	4,360,199	3,801,392	12,183,828	12,174,708	16,544,027	15,976,100
Total assets	<u>10,832,832</u>	<u>10,011,352</u>	<u>13,554,023</u>	<u>13,272,506</u>	<u>24,386,855</u>	<u>23,283,858</u>
Long-term liabilities	1,540,098	1,718,298	822,288	926,955	2,362,386	2,645,253
Other liabilities	345,398	142,242	251,366	146,572	596,764	288,814
Total liabilities	<u>1,885,496</u>	<u>1,860,540</u>	<u>1,073,654</u>	<u>1,073,527</u>	<u>2,959,150</u>	<u>2,934,067</u>
Net assets:						
Invested in capital assets, net of related debt	3,267,159	2,532,247	11,441,392	11,326,997	14,708,551	13,859,244
Restricted	659,703	189,508	-	-	659,703	189,508
Unrestricted	5,020,474	5,429,057	1,038,977	871,982	6,059,451	6,301,039
Total net assets	<u>\$ 8,947,336</u>	<u>\$ 8,150,812</u>	<u>\$12,480,369</u>	<u>\$12,198,979</u>	<u>\$ 21,427,705</u>	<u>\$ 20,349,791</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Brevard exceeded liabilities by \$21,427,705 as of June 30, 2009. The City's net assets increased by \$1,077,914 for the fiscal year ended June 30, 2009. 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 (3.08%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$6,059,451 (28%) is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.51%, which is comparable to the statewide average of 96.99%. Property tax revenues increased approximately 1.18%.
- Sales tax revenues decreased \$143,022 due to depressed economic conditions.
- A decrease of approximately 3.4% in sales & services revenues.
- A reduction of General Fund expenditures of \$533, 857.

City of Brevard Changes in Net Assets
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 1,714,606	\$ 1,529,013	\$ 3,111,138	\$ 3,334,060	\$ 4,825,744	\$ 4,863,073
Operating grants and contributions	231,438	841,997	-	-	231,438	841,997
Capital grants and contributions	-	-	265,402	41,206	265,402	41,206
General revenues:						
Property taxes	3,605,941	3,534,061	-	-	3,605,941	3,534,061
Sales tax	1,036,156	1,179,179	-	-	1,036,156	1,179,179
Special item – sale of water shed easement	-	1,037,000	-	-	-	1,037,000
Other	785,007	877,207	22,046	16,777	807,053	893,984
Total revenues	7,373,148	8,998,457	3,398,586	3,392,043	10,771,734	12,390,500
Expenses:						
General government	1,644,319	1,390,835	-	-	1,644,319	1,390,835
Public safety	1,897,020	2,607,933	-	-	1,897,020	2,607,933
Public works	2,574,879	2,584,519	-	-	2,574,879	2,584,519
Economic and physical development	96,558	497,858	-	-	96,558	497,858
Culture and recreation	64,322	346,510	-	-	64,322	346,510
Interest on long term debt	51,508	42,907	-	-	51,508	42,907
Water and sewer	-	-	3,365,214	3,064,308	3,365,214	3,064,308
Total expenses	6,328,606	7,470,562	3,365,214	3,064,308	9,693,820	10,534,870
Increase in net assets before transfers	1,044,542	1,527,895	33,372	327,735	1,077,914	1,855,630
Transfers	(248,018)	400,000	248,018	(400,000)	-	-
Increase (decrease) in net assets after transfers	796,524	1,927,895	281,390	(72,265)	1,077,914	1,855,630
Net assets, beginning	8,150,182	6,222,917	12,198,979	12,271,244	20,349,791	18,494,161
Net assets, ending	<u>\$ 8,947,336</u>	<u>\$ 8,150,812</u>	<u>\$ 12,480,369</u>	<u>\$ 12,198,979</u>	<u>\$ 21,427,705</u>	<u>\$ 20,349,791</u>

Governmental activities. Governmental activities increased the City's net assets by \$796,524.

Business-type activities: Business-type activities increased the City of Brevard's net assets by \$281,390.

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 \$2,301,288, while total fund balance reached \$3,065,057. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 32% percent of total General Fund expenditures.

Management's Discussion and Analysis
 City of Brevard

At June 30, 2009, the governmental funds of City of Brevard reported a combined fund balance of \$6,087,951, a 1% percent increase over last year. Included in this change in fund balance are increase in fund balance of the Capital Reserve Fund and increases 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 funding for purchasing equipment to outfit a new quint ladder fire truck. The second amendment was the shifting of funds between departments to account for the final estimated expenditures for fiscal year 2008-2009.

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 \$1,038,977. 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, 2009, totals \$16,544,027 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 319,893	\$ 319,893	\$ 212,891	\$ 212,891	\$ 532,784	\$ 532,784
Buildings and systems	1,401,585	1,459,439	11,528,562	11,548,180	12,930,147	13,007,619
Equipment	296,398	306,380	225,432	251,657	521,830	558,037
Vehicles and motorized equipment	<u>2,342,323</u>	<u>1,715,680</u>	<u>216,943</u>	<u>161,980</u>	<u>2,559,266</u>	<u>1,877,660</u>
Total	\$ 4,360,199	\$ 3,801,392	\$ 12,183,828	\$ 12,174,708	\$ 16,544,027	\$ 15,976,100

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, 2009, the City of Brevard had total bonded debt outstanding of \$-0-. Debt decreased by \$178,200 for the Governmental Fund due to principal payments on existing debt and decreased by \$104,677 for the Proprietary Fund due to principal repayments.

City of Brevard's Outstanding Debt
Figure 5

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009
Governmental Activities:				
Installment Contracts	\$ 1,269,145	\$ -	\$ 176,106	\$ 1,093,039
Compensated Absences	201,415	12,255	-	213,670
Net pension obligations	247,738	-	14,349	233,389
Total	\$ 1,718,298	\$ 12,255	\$ 190,455	\$ 1,540,098
Business Type Activities:				
Installment Contracts	\$ 847,711	\$ -	\$ 105,275	\$ 742,436
Compensated Absences	79,244	608	-	79,852
Total Business Type	\$ 926,955	\$ 608	\$ 105,275	\$ 822,288

The City of Brevard maintained for the 15th 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 \$54.8 million. The City has \$-0- in bonds authorized but un-issued at June 30, 2009.

Additional information regarding the City of Brevard's long-term debt can be found in Note 9 beginning on page 39 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.

- Recent employment statistics are shown in the table below.

County	June 2009 Unemployment Claims		
	Work Force	Number	Percent of Work Force
Transylvania	14,155	1,218	8.6%
Buncombe	121,091	10,980	9.1%
Henderson	48,964	4,601	9.4%
North Carolina	4,554,663	501,720	11.0%

Source: NC Employment Security Commission – September 2009

- 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. However, statistics since last year show a small decline due to depressed economic conditions.

Transylvania County

Year	Tourism Revenue (\$ millions)	% Growth
2004	64.80	3%
2005	69.94	8%
2006	75.64	8%
2007	80.14	6%
2008	77.07	-4%

*Source: Transylvania County Economic Development

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

	2004	2005	2006	2007	2008
City of Brevard	98.05%	98.19%	99.26%	99.56%	99.51%
Statewide	97.30%	97.41%	96.63%	96.69%	96.92%

*Source: State Treasurers Office, Local Government Commission

- Within the City, sales tax generated from taxable sales decreased 12.13% from \$1,179,178 in the fiscal year 2007-2008, to \$1,036,156 in the fiscal year 2008-2009. This compares with a 6.47% decrease for Asheville and a 11.69% decrease for Hendersonville.

Budget Highlights for the Fiscal Year Ending June 30, 2010

Governmental Activities

- The general fund budget as adopted increased from \$7,286,659 to \$7,721,196. Property tax collections are predicted to increase from \$3.261 to \$3.300 million this year, a 1.18% increase. This growth is predicted based upon strong commercial growth that includes grocers, pharmaceutical, and restaurant retail space.

Proprietary Activities

- Water and Sewer customer receipts grew \$56,378 for fiscal year 2008. This is due to a modest increase in water and sewer rates. The City of Brevard has in place a 20 year Capital Improvement Plan for the Utility Fund which describes in detail the rate increases necessary to fund the remodeling of aging plants and replacement of deteriorating water/sewer lines. Revenue from these rate adjustments will be transferred to capital reserve for future improvements. The City experienced a growth in customer base of 20 utility customers.

Other Information:

The following information was provided by the Transylvania County Building Permitting and Enforcement Department for the calendar year ending December 31, 2008:

The building industry was productive for the calendar year 2008 in Transylvania County. As a result, the county building department was busy with plan review, permitting, and inspecting. Below are statistics for calendar year 2008:

Detailed Residential Construction Value 2008

New house value: City 12 houses - \$2,356,640
New house value: County 140 houses - \$46,212,771

Addition/Remodel Value: City 58 houses - \$1,468,346
Addition/Remodel Value: County 164 houses - \$7,352,654

Manufactured Homes: City 9 houses - \$130,650
Manufactured Homes: County 72 houses - \$2,000,401

Detailed Commercial Construction Value 2008

New: City 2 - \$30,203,000
New: County 26 - \$2,458,560

Addition/Remodel: City 56 - \$5,721,293
Addition/Remodel: County 26 - \$3,838,773

The number of new house permits in 2008 compared to 2007 was down 36%.
The number of new house permits in 2008 compared to 2006 was down 35%.
The total construction value in 2008 compared to 2007 was up 25%.
The construction value of commercial construction in 2008 compared to 2007 was up 54.20%.
The number of commercial addition/alteration projects constructed in the city and county was up 16.43%.

Management's Discussion and Analysis
City of Brevard

New home construction growth was strongest in the 276 South area, pushed by many new homes in Connestee and Cedar Mountain. This trend 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 5 years in the City of Brevard

2008 - \$ 39,879,929
2007 - \$ 31,923,222
2006 - \$ 17,719,189
2005 - \$ 29,377,601
2004 - \$ 25,727,340

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
tscruggs@cityofbrevard.com
www.cityofbrevard.com

CITY OF BREVARD, NORTH CAROLINA

Exhibit 1

STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit City of Brevard ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 5,703,954	\$ 1,054,882	\$ 6,758,836	\$ 219,793
Taxes receivable (net)	34,327	-	34,327	-
Accrued interest receivable on taxes	17,007	-	17,007	-
Accounts receivable (net)	203,260	164,257	367,517	26
Due from other governments	411,818	1,248	413,066	-
Inventories	46,827	-	46,827	273,052
Prepaid items	-	19,357	19,357	6,387
Total current assets	6,417,193	1,239,744	7,656,937	499,258
Restricted assets:				
Cash and cash equivalents	55,440	130,451	185,891	-
Capital assets:				
Land, non-depreciable improvements & construction in progress	319,893	212,891	532,784	-
Other capital assets, net of depreciation	4,040,306	11,970,937	16,011,243	63,964
Total capital assets	4,360,199	12,183,828	16,544,027	63,964
Total assets	10,832,832	13,554,023	24,386,855	563,222
LIABILITIES				
Current liabilities:				
Accounts payable	333,342	120,915	454,257	214,075
Accrued interest payable	12,056	-	12,056	-
Customer deposits	-	130,451	130,451	-
Long-term liabilities:				
Due within one year	126,337	110,550	236,887	6,152
Due in more than one year	1,413,761	711,738	2,125,499	11,800
Total liabilities	1,885,496	1,073,654	2,959,150	232,027
NET ASSETS				
Invested in capital assets, net of related debt	3,267,159	11,441,392	14,708,551	46,012
Restricted for:				
Capital projects	476,055	-	476,055	-
Special revenue	124,005	-	124,005	-
Other purposes	59,643	-	59,643	96,343
Unrestricted	5,020,474	1,038,977	6,059,451	188,840
Total net assets	\$ 8,947,336	\$ 12,480,369	\$ 21,427,705	\$ 331,195

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, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,644,319	\$ 684,364	\$ 3,000	\$ -
Public safety	1,897,020	49,047	2,300	-
Public works	2,574,879	957,179	226,138	-
Economic and physical development	96,558	14,987	-	-
Cultural and recreation	64,322	9,029	-	-
Interest on long-term debt	51,508	-	-	-
Total governmental activities	6,328,606	1,714,606	231,438	-
Business-type activities:				
Water and sewer	3,365,214	3,111,138	-	265,402
Total business-type activities	3,365,214	3,111,138	-	265,402
Total primary government	\$ 9,693,820	\$ 4,825,744	\$ 231,438	\$ 265,402
Component unit:				
ABC Board	\$ 2,617,937	\$ 2,625,263	\$ -	\$ -
Total component unit	\$ 2,617,937	\$ 2,625,263	\$ -	\$ -
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Sales taxes				
Other taxes				
Distribution from component unit-ABC Board				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning				
Net assets, ending				

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
\$ (956,955)	\$ -	\$ (956,955)	\$ -
(1,845,673)	-	(1,845,673)	-
(1,391,562)	-	(1,391,562)	-
(81,571)	-	(81,571)	-
(55,293)	-	(55,293)	-
(51,508)	-	(51,508)	-
(4,382,562)	-	(4,382,562)	-
-	11,326	11,326	-
-	11,326	11,326	-
(4,382,562)	11,326	(4,371,236)	-
-	-	-	7,326
-	-	-	7,326
3,605,941	-	3,605,941	-
1,036,156	-	1,036,156	-
479,100	-	479,100	-
171,793	-	171,793	-
106,126	22,046	128,172	988
27,988	-	27,988	2,841
(248,018)	248,018	-	-
5,179,086	270,064	5,449,150	3,829
796,524	281,390	1,077,914	11,155
8,150,812	12,198,979	20,349,791	320,040
\$ 8,947,336	\$ 12,480,369	\$ 21,427,705	\$ 331,195

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

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	Major Funds		Total Non- Major Funds	Total
	General	Capital Reserve		Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,634,630	\$ 2,363,191	\$ 761,573	\$ 5,759,394
Receivables, net:				
Taxes	34,327	-	-	34,327
Accounts	191,721	-	11,533	203,254
Due from other governments	411,818	-	-	411,818
Due from other funds	113,403	-	(113,403)	-
Inventories	46,827	-	-	46,827
Total assets	<u>3,432,726</u>	<u>2,363,191</u>	<u>659,703</u>	<u>6,455,620</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	333,342	-	-	333,342
Deferred revenue	34,327	-	-	34,327
Total liabilities	<u>367,669</u>	<u>-</u>	<u>-</u>	<u>367,669</u>
Fund balances:				
Reserved for:				
Inventories	46,827	-	-	46,827
Perpetual maintenance:				
Expendable	-	-	4,203	4,203
Nonexpendable	-	-	55,440	55,440
State statute	716,942	-	11,533	728,475
Unreserved, designated for subsequent year's expenditures	96,000	-	588,527	684,527
Unreserved, undesignated	2,205,288	2,363,191	-	4,568,479
Total fund balances	<u>3,065,057</u>	<u>2,363,191</u>	<u>659,703</u>	<u>6,087,951</u>
Total liabilities and fund balances	<u>\$ 3,432,726</u>	<u>\$ 2,363,191</u>	<u>\$ 659,703</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.	4,360,199
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.	17,007
Liabilities for earned but deferred revenues in fund statements.	34,327
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.	(1,552,148)
Net assets of governmental activities	<u>\$ 8,947,336</u>

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	<u>Major Funds</u>			Total Governmental Funds
	General Fund	Capital Reserve Fund	Total Non- Major Funds	
REVENUES				
Ad valorem taxes	\$ 3,299,417	\$ -	\$ 309,360	\$ 3,608,777
Other taxes and licenses	1,082,490	-	-	1,082,490
Unrestricted intergovernmental	1,159,902	-	-	1,159,902
Restricted intergovernmental	234,902	-	-	234,902
Sales and services	1,034,548	124,439	-	1,158,987
Investment earnings	37,983	61,353	3,014	102,350
Miscellaneous	2,605	20,194	-	22,799
Total revenues	<u>6,851,847</u>	<u>205,986</u>	<u>312,374</u>	<u>7,370,207</u>
EXPENDITURES				
Current:				
General government	1,590,206	5,147	-	1,595,353
Public safety	2,615,693	-	6,102	2,621,795
Public works	2,375,810	-	-	2,375,810
Economic and physical development	-	-	182,430	182,430
Culture and recreation	60,613	-	-	60,613
Debt service:				
Principal	176,105	-	-	176,105
Interest and other charges	59,036	-	-	59,036
Total expenditures	<u>6,877,463</u>	<u>5,147</u>	<u>188,532</u>	<u>7,071,142</u>
Excess (deficiency) of revenues over expenditures	<u>(25,616)</u>	<u>200,839</u>	<u>123,842</u>	<u>299,065</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	208,247	17,582	554,600	780,429
Transfers to other funds	(397,000)	(423,200)	(208,247)	(1,028,447)
Total other financing sources (uses)	<u>(188,753)</u>	<u>(405,618)</u>	<u>346,353</u>	<u>(248,018)</u>
Net change in fund balance	<u>(214,369)</u>	<u>(204,779)</u>	<u>470,195</u>	<u>51,047</u>
Fund balances, beginning	3,279,426	2,567,970	189,508	6,036,904
Fund balances, ending	<u>\$ 3,065,057</u>	<u>\$ 2,363,191</u>	<u>\$ 659,703</u>	<u>\$ 6,087,951</u>

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, 2009

Amounts reported for governmental activities in the statement of activities
(Exhibit 2) are different because:

Net changes in fund balances - total governmental funds	\$ 51,047
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	558,808
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	936
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	9,623
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>176,110</u>
Total changes in net assets of governmental activities	<u><u>\$ 796,524</u></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, 2009

	<u>General Fund</u>			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 3,451,075	\$ 3,451,075	\$ 3,299,417	\$ (151,658)
Other taxes and licenses	1,255,000	1,255,000	1,082,490	(172,510)
Unrestricted intergovernmental	1,087,450	1,087,450	1,159,902	72,452
Restricted intergovernmental	230,204	230,204	234,902	4,698
Sales and services	991,782	1,030,650	1,034,548	3,898
Investment earnings	60,100	60,100	37,983	(22,117)
Miscellaneous	39,180	39,180	2,605	(36,575)
Total revenues	<u>7,114,791</u>	<u>7,153,659</u>	<u>6,851,847</u>	<u>(301,812)</u>
Expenditures:				
Current:				
General government	1,837,381	1,728,158	1,590,206	137,952
Public safety	2,760,890	2,846,037	2,615,693	230,344
Public works	2,462,727	2,524,341	2,375,810	148,531
Cultural and recreation	63,840	65,170	60,613	4,557
Debt service:				
Principal retirement	176,160	176,160	176,105	55
Interest and other charges	59,060	59,060	59,036	24
Total expenditures	<u>7,360,058</u>	<u>7,398,926</u>	<u>6,877,463</u>	<u>521,463</u>
Revenues over (under) expenditures	<u>(245,267)</u>	<u>(245,267)</u>	<u>(25,616)</u>	<u>219,651</u>
Other financing sources (uses):				
Transfers from other funds	211,367	211,367	208,247	(3,120)
Transfers to other funds	(397,000)	(397,000)	(397,000)	-
Fund balance appropriated	430,900	430,900	-	(430,900)
Total other financing sources (uses)	<u>245,267</u>	<u>245,267</u>	<u>(188,753)</u>	<u>(434,020)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>(214,369)</u>	<u>\$ (214,369)</u>
Fund balances, beginning			<u>3,279,426</u>	
Fund balances, ending			<u>\$ 3,065,057</u>	

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

Exhibit 6

Capital Reserve Fund

Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
15,000	15,000	124,439	109,439
25,000	25,000	61,353	36,353
-	-	20,194	20,194
<u>40,000</u>	<u>40,000</u>	<u>205,986</u>	<u>165,986</u>
-	-	5,147	(5,147)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	5,147	(5,147)
<u>40,000</u>	<u>40,000</u>	<u>200,839</u>	<u>160,839</u>
-	-	17,582	17,582
(547,600)	(547,600)	(423,200)	124,400
507,600	507,600	-	(507,600)
<u>(40,000)</u>	<u>(40,000)</u>	<u>(405,618)</u>	<u>(365,618)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>(204,779)</u>	<u>\$ (204,779)</u>
		<u>2,567,970</u>	
		<u>\$ 2,363,191</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, 2009

	<u>Major Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,054,882
Accounts receivable (net)	164,257
Due from other governments	1,248
Prepaid	19,357
Total current assets	<u>1,239,744</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	<u>130,451</u>
Capital assets:	
Land and other non-depreciable assets	212,891
Other capital assets, net of depreciation	11,970,937
Capital assets (net)	<u>12,183,828</u>
Total noncurrent assets	<u>12,314,279</u>
Total assets	<u>13,554,023</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	120,915
Customer deposits	130,451
Installment contracts- current	110,550
Total current liabilities	<u>361,916</u>
Noncurrent liabilities:	
Compensated absences	79,852
Installment contracts - noncurrent (net)	631,886
Total noncurrent liabilities	<u>711,738</u>
Total liabilities	<u>1,073,654</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,441,392
Unrestricted	1,038,977
Total net assets	<u>\$ 12,480,369</u>

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 For the Year Ended June 30, 2009

	Major Enterprise Fund
	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 3,286,824
Water and sewer taps	20,337
Other operating revenues	69,380
Total operating revenues	3,376,541
OPERATING EXPENSES	
Water treatment and distribution	1,003,384
Waste collection and treatment	1,450,723
Payment to general fund in lieu of taxes & admin expenses	490,000
Depreciation	368,636
Other	16,863
Total operating expenses	3,329,606
Operating income	46,935
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	22,046
Interest and other fees	(35,609)
Total nonoperating revenue (expenses)	(13,563)
Income before contributions and transfers	33,372
Transfers from other funds	265,600
Transfers to other funds	(17,582)
Change in net assets	281,390
Total net assets, beginning	12,198,979
Total net assets, ending	\$ 12,480,369

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

CITY OF BREVARD, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2009

	Major Enterprise Fund
	Water and Sewer
	Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,505,555
Cash paid for goods and services	(1,701,860)
Cash paid to or on behalf of employees for services	(1,188,464)
Customer deposits received	15,399
Net cash provided by operating activities	630,630
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(17,582)
Net cash used by noncapital financing activities	(17,582)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Borrowed from other funds	(225,000)
Receipt of grants	329,825
Acquisition and construction of capital assets	(377,756)
Principal paid on bond maturities and equipment contracts	(105,275)
Interest paid on bond maturities and equipment contracts	(35,609)
Net cash used by capital and related financing activities	(413,815)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	22,046
Net cash provided by investing activities	22,046
Net increase in cash and cash equivalents	221,279
Balances, beginning of year	964,054
Balances, ending of year	\$ 1,185,333
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 46,935
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	368,636
Changes in assets and liabilities:	
Increase in accounts receivable	129,014
Decrease in prepaid assets	(19,357)
Decrease in accounts payable and accrued liabilities	89,395
Increase in customer deposits	15,399
Increase in accrued compensated absences	608
Total adjustments	583,695
Net cash provided by operating activities	\$ 630,630

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, 2009

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.

Permanent 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 2008 through February 2009 apply to the fiscal year ended June 30, 2009. 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, 2009 because they are intended to finance the City's operations during the 2010 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, two 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, 2008. 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 2009 - 2010 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)	\$ 9,445,884
Less accumulated depreciation	<u>(5,085,685)</u>
Net capital assets	4,360,199
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	17,007
Liabilities for revenue deferred but earned and therefore recorded in the fund statements but not the government-wide	34,327
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	(1,093,039)
Compensated absences and pension	(447,058)
Accrued interest payable	<u>(12,051)</u>
Total adjustment	<u>\$ 2,859,385</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	\$ 951,780
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	(392,972)
Principal payments on debt owed are recorded as a use only the statement of net assets in the government-wide statements	176,105
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	7,528
Accrued compensated absences	2,095
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, 2008	(13,230)
Recording of interest revenue deferred in fund statements at June 30, 2009	17,007
Reversal of deferred tax revenue recorded at July 1, 2008	(37,163)
Recording of tax receipts deferred in the fund statements as of June 30, 2009	<u>34,327</u>
Total adjustment	<u>\$ 745,477</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:

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
Capital Reserve Fund:			
Miscellaneous	\$ -	\$ 5,147	\$ (5,147)
Special Fire District:			
Miscellaneous	6,081	6,102	(21)

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, 2009, the City's deposits had a carrying amount of \$5,049,299 and a bank balance of \$4,970,822. Of the bank balance, \$500,000 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 \$214,360 and the bank balance was \$194,617. All of the bank balance of the ABC Board was covered by federal depository insurance. At June 30, 2009, the City's petty cash fund totaled \$450.

2. Investments

At June 30, 2009, the City of Brevard had \$1,894,978 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	\$ 16,000
Allowance for uncollectible refuse collection fees	48,600
Water and Sewer Fund:	
Allowance for uncollectible utility receivables	157,400

Note 5 – Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2009, 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	866,964	68,300	950	934,314
Vehicles and motorized equipment	4,276,215	883,481	66,926	5,092,770
Total capital assets being depreciated	<u>8,242,086</u>	<u>951,781</u>	<u>67,876</u>	<u>9,125,991</u>
Less accumulated depreciation for:				
Buildings	1,639,467	57,855	-	1,697,322
Equipment	560,586	78,280	950	637,916
Vehicles and motorized equipment	2,560,536	256,837	66,296	2,750,447
Total accumulated depreciation	<u>4,760,589</u>	<u>\$ 392,972</u>	<u>\$ 67,876</u>	<u>5,085,685</u>
Total capital assets being depreciated, net	<u>3,481,499</u>			<u>4,040,305</u>
Governmental activities capital assets, net	<u>\$ 3,801,392</u>			<u>\$ 4,360,199</u>

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

General government	\$ 75,420
Public safety	198,405
Public works	115,437
Cultural and recreational	<u>3,710</u>
Total depreciation expense	<u>\$ 392,972</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 212,891	\$ -	\$ -	\$ 212,891
Total capital assets not being depreciated	<u>212,891</u>	<u>-</u>	<u>-</u>	<u>212,891</u>
Capital assets being depreciated:				
Plant and distribution systems	17,400,375	265,000	-	17,665,375
Maintenance equipment and furniture	622,636	14,531	-	637,167
Vehicles	546,192	98,224	-	644,416
Total capital assets being depreciated	<u>18,569,203</u>	<u>377,755</u>	<u>-</u>	<u>18,946,958</u>
Less accumulated depreciation for:				
Plant and distribution systems	5,852,194	284,619	-	6,136,813
Maintenance equipment and furniture	370,979	40,756	-	411,735
Vehicles	384,212	43,261	-	427,473
Total accumulated depreciation	<u>6,607,385</u>	<u>\$ 368,636</u>	<u>\$ -</u>	<u>6,976,021</u>
Total capital assets being depreciated, net	<u>11,961,818</u>			<u>11,970,937</u>
Water and sewer fund capital assets, net	<u>\$12,174,709</u>			<u>\$12,183,828</u>

Discretely presented component unit:

Activity for the ABC Board for the year ended June 30, 2009 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Leasehold improvements	\$ 53,520	\$ -	\$ -	\$ 53,520
Office and store equipment	92,475	1,256	1,354	92,377
Law enforcement equipment	21,740	26,020	21,270	26,490
Total capital assets being depreciated	<u>167,735</u>	<u>27,276</u>	<u>22,624</u>	<u>172,387</u>
Less accumulated depreciation	<u>115,201</u>	<u>\$ 15,508</u>	<u>\$ 22,286</u>	<u>108,423</u>
ABC Board capital assets, net	<u>\$ 52,534</u>			<u>\$ 63,964</u>

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, 2009, 2008, and 2007 were \$179,752, \$174,311, and \$174,786, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2009, 2008, and 2007 were \$10,341, \$9,089, and \$9,612, 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, 2009, the Separation Allowance's membership consisted of:

Retirees receiving benefits	6
Active plan members	<u>22</u>
Total	<u><u>28</u></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, 2008 actuarial valuation using the projected unit credit actuarial cost method.

4. Funded Status and Funding Process

As of December 31, 2008, the most recent actuarial valuation date, the plan was not funded. 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	\$ 51,911
Interest on net pension obligation	17,961
Adjustment to annual required contribution	<u>(15,146)</u>
Annual pension cost	54,726
Contributions made	<u>(69,075)</u>
Increase (decrease) in net pension obligation	(14,349)
Net pension obligation beginning of fiscal year	<u>247,738</u>
Net pension obligation end of fiscal year	<u>\$ 233,389</u>

3 Year Trend Information			
For Year Ended	Annual Pension	Percentage of APC	Net Pension
June 30	Cost (APC)	Contributed	Obligation
2007	\$ 45,031	114.78%	\$ 258,186
2008	58,629	117.82%	247,738
2009	54,726	126.22%	233,389

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. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Officer of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

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, 2009 were \$66,304, which consisted of \$48,512 from the City and \$17,792 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, 2009, the City made payments for post-employment health benefit premiums of \$12,953. The City obtains health care coverage through private insurers.

Note 7 – Deferred/Unearned Revenues

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

	<u>Deferred Revenue</u>
Taxes receivable (General Fund)	\$ 34,327
Total	<u>\$ 34,327</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%.

In December 2007, the City entered into an installment purchase contract for \$785,000 to finance a new fire ladder truck. The financing agreement requires two semi-annual payments of \$47,393 including interest at 3.55%.

The future minimum payments of the installment purchases as of June 30, 2009 are as follows:

Year Ending June 30	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 126,337	\$ 44,855	\$ 171,192	\$ 110,551	\$ 30,333	\$ 140,884
2011	128,832	39,453	168,285	115,826	25,058	140,884
2012	131,416	33,661	165,077	121,102	19,782	140,884
2013	134,094	29,353	163,447	126,377	14,507	140,884
2014	134,094	21,812	155,906	131,652	9,232	140,884
Next 5 years	<u>438,343</u>	<u>31,800</u>	<u>470,143</u>	<u>136,928</u>	<u>3,956</u>	<u>140,884</u>
	<u>\$1,093,039</u>	<u>\$ 200,934</u>	<u>\$1,293,973</u>	<u>\$ 742,436</u>	<u>\$ 102,868</u>	<u>\$ 845,304</u>

B. Bonds Payable

At June 30, 2009, there were no outstanding authorizations to issue bonds and no outstanding general obligation bonds and the City had a legal debt margin of \$52,000,000.

C. Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Installment contracts	\$ 1,269,145	\$ -	\$ 176,106	\$ 1,093,039	\$ 126,337
Compensated absences	201,415	12,255	-	213,670	-
Net pension obligations	247,738	-	14,349	233,389	-
Governmental activities long-term liabilities	<u>\$ 1,718,298</u>	<u>\$ 12,255</u>	<u>\$ 190,455</u>	<u>\$ 1,540,098</u>	<u>\$ 126,337</u>
Business-type activities:					
Installment contracts	\$ 847,711	\$ -	\$ 105,275	\$ 742,436	\$ 110,550
Compensated absences	79,244	608	-	79,852	-
Business-type activity long-term liabilities	<u>\$ 926,955</u>	<u>\$ 608</u>	<u>\$ 105,275</u>	<u>\$ 822,288</u>	<u>\$ 110,550</u>

The following is a summary of interest expense during the year ended June 30, 2009:

	<u>Interest Expense</u>
General fund	\$ 59,036
Water and sewer fund	35,609

Note 10 – Interfund Balances and Activity

Balances Due to/from Other Funds:	
Due to the General Fund from the Pedestrian/Bikeway Fund	\$ 113,403
Transfers to/from Other Funds:	
Transfers to/from other funds for the year ending June 30, 2009, consist of the following:	
From the Bjerg Fund to the General Fund for community center upkeep	1,000
From the Fire District Fund to the General Fund for Fire Department expenditures	199,647
From the Capital Reserve Fund to the Pedestrian/Bikeway Fund for capital outlay	157,600
From the General Fund to the Pedestrian/Bikeway Fund for capital project	397,000
From the CDBG Fund to General Fund for refund	7,600
From the Capital Reserve Fund to the Water and Sewer Fund for reserve for capital outlay	265,600

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 \$19,510 of goods during the year from Harris Hardware and Farm Supply, Inc., which is operated by Mayor Jimmy Harris.

REQUIRED SUPPLEMENTAL FINANCIAL 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%
12/31/07	-	593,019	593,019	0%	1,048,176	56.58%
12/31/08	-	505,058	505,058	0%	950,926	53.11%

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>
2007	45,031	114.8%
2008	58,629	117.8%
2009	54,726	126.2%

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.

Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	22 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

COMPLIANCE SECTION

CITY OF BREVARD, NORTH CAROLINA

GENERAL FUND
COMPARATIVE BALANCE SHEET
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 2,634,630	\$ 2,478,049
Receivables (net):		
Ad valorem taxes	34,327	37,163
Accounts receivable	191,721	136,163
Due from other governments	411,818	682,281
Due from other funds	113,403	30,651
Inventories	46,827	74,940
	<u>\$ 3,432,726</u>	<u>\$ 3,439,247</u>
 Liabilities and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	\$ 333,342	\$ 120,812
Deferred revenues	34,327	37,163
Unearned revenues	-	1,846
Total liabilities	<u>367,669</u>	<u>159,821</u>
 Fund balances:		
Reserved for inventories	46,827	74,940
Reserved by State statute	716,942	849,095
Unreserved:		
Designated for subsequent years' expenditures	96,000	441,620
Undesignated	2,205,288	1,913,771
Total fund balances	<u>3,065,057</u>	<u>3,279,426</u>
	<u>\$ 3,432,726</u>	<u>\$ 3,439,247</u>

CITY OF BREVARD, NORTH CAROLINA

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

For the year ended June 30, 2009

With comparative actual amounts for the year ended June 30, 2008

	2009		Variance Positive (Negative)	2008
	Budget	Actual		Actual
Revenues				
Ad Valorem Taxes:				
Current year	\$ 3,390,575	\$ 3,255,715	\$ (134,860)	\$ 3,201,224
Prior years	51,000	28,462	(22,538)	44,646
Penalties and interest	12,000	18,317	6,317	17,485
Refunds paid on ad valorem tax	(2,500)	(3,077)	(577)	(2,275)
	<u>3,451,075</u>	<u>3,299,417</u>	<u>(151,658)</u>	<u>3,261,080</u>
Other Taxes and Licenses:				
Local option sales tax	1,200,000	1,036,156	(163,844)	1,179,178
Privilege licenses	20,000	22,204	2,204	22,291
Zoning administration	35,000	24,130	(10,870)	33,431
	<u>1,255,000</u>	<u>1,082,490</u>	<u>(172,510)</u>	<u>1,234,900</u>
Unrestricted Intergovernmental Revenues:				
Payments in lieu of taxes:				
Water and sewer fund	490,000	490,000	-	250,000
Other	5,000	5,000	-	5,000
Franchise tax	310,000	367,687	57,687	342,604
Beer and wine taxes	30,000	32,012	2,012	32,507
Utilities franchise tax - CATV	45,000	52,197	7,197	44,106
City narcotics investigation	37,450	41,213	3,763	42,117
City of Brevard ABC Board	170,000	171,793	1,793	215,719
	<u>1,087,450</u>	<u>1,159,902</u>	<u>72,452</u>	<u>932,053</u>
Restricted Intergovernmental Revenues:				
State street aid allocation	210,000	226,138	16,138	251,915
Court facilities fees	7,000	3,464	(3,536)	5,067
Grant from insurance carrier	1,750	3,000	1,250	2,750
P.O. GEBG Grant	11,454	2,300	(9,154)	7,798
Grant - Bikeway	-	-	-	1,128
Grants- Stormwater	-	-	-	24,006
	<u>230,204</u>	<u>234,902</u>	<u>4,698</u>	<u>292,664</u>

CITY OF BREVARD, NORTH CAROLINA

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 For the year ended June 30, 2009
 With comparative actual amounts for the year ended June 30, 2008

	2009		Variance Positive (Negative)	2008
	Budget	Actual		Actual
Sales and Services:				
Recycling revenue	44,000	46,622	2,622	59,260
Storm water fee	-	-	-	5,697
Rents	24,600	22,550	(2,050)	26,650
Parking violation penalties	6,000	4,370	(1,630)	4,905
Parking fees	-	-	-	1,510
Recreation revenues	-	9,028	9,028	-
Refuse collection fees	553,000	548,694	(4,306)	535,860
Vehicle maintenance	377,650	361,863	(15,787)	412,929
Sale of fixed assets	25,400	23,384	(2,016)	24,307
Other	-	18,037	18,037	-
	<u>1,030,650</u>	<u>1,034,548</u>	<u>3,898</u>	<u>1,071,118</u>
Investment earnings	60,100	37,983	(22,117)	101,667
Miscellaneous:				
Other	39,180	2,605	(36,575)	43,206
Total revenues	<u>7,153,659</u>	<u>6,851,847</u>	<u>(301,812)</u>	<u>6,936,688</u>
Expenditures				
General Government:				
Governing Body:				
Salaries and employee benefits		34,944		33,280
Other operating expenses		17,635		24,166
		<u>60,750</u>	<u>8,171</u>	<u>57,446</u>
Administration:				
Salaries and employee benefits		197,640		178,176
Other operating expenses		49,615		56,645
Capital outlay		2,505		-
		<u>275,225</u>	<u>25,465</u>	<u>234,821</u>
City Clerk:				
Salaries and employee benefits		64,820		73,272
Other operating expenses		30,362		52,823
		<u>137,620</u>	<u>42,438</u>	<u>126,095</u>

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

For the year ended June 30, 2009

With comparative actual amounts for the year ended June 30, 2008

	2009		Variance Positive (Negative)	2008
	Budget	Actual		Actual
General Government (continued):				
Finance:				
Salaries and employee benefits		224,366		200,880
Other operating expenses		173,263		168,810
	406,241	397,629	8,612	369,690
Tax Collector:				
Other operating expenses	110,000	99,098	10,902	100,930
Legal:				
Other operating expenses	131,000	128,476	2,524	59,944
Planning:				
Salaries and employee benefits		284,588		277,486
Other operating expenses		126,790		113,377
	439,019	411,378	27,641	390,863
Special Appropriations:				
Chamber of Commerce		2,500		2,500
Heart of Brevard		15,000		15,000
	17,500	17,500	-	17,500
Personnel:				
Salaries and employee benefits		87,110		58,377
Other operating expenses		51,494		40,307
	150,753	138,604	12,149	98,684
Elections				
Other operating expenses	50	-	50	14,455
Total General Government	1,728,158	1,590,206	137,952	1,470,428
Public Safety:				
Police:				
Salaries and employee benefits		1,846,399		1,833,536
Other operating expenses		387,036		350,538
Capital outlay		85,445		50,024
	2,536,878	2,318,880	217,998	2,234,098

CITY OF BREVARD, NORTH CAROLINA

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

For the year ended June 30, 2009

With comparative actual amounts for the year ended June 30, 2008

	2009		Variance	2008
	Budget	Actual	Positive (Negative)	Actual
Public Safety (continued):				
Fire:				
Salaries and employee benefits		166,988		156,069
Other operating expenses		129,825		250,538
Capital outlay		-		647,892
	309,159	296,813	12,346	1,054,499
Total public safety	2,846,037	2,615,693	230,344	3,288,597
Public Works:				
Administration:				
Salaries and employee benefits		153,428		104,329
Other operating expenses		68,937		61,391
	228,054	222,365	5,689	165,720
Central Maintenance:				
Salaries and employee benefits		135,777		137,125
Other operating expenses		327,817		365,629
Capital outlay		5,239		-
	491,375	468,833	22,542	502,754
Streets:				
Salaries and employee benefits		92,636		85,184
Other operating expenses		184,367		214,175
	282,374	277,003	5,371	299,359
Powell Aid:				
Salaries and employee benefits		239,487		228,900
Other operating expenses		109,177		151,316
	364,191	348,664	15,527	380,216
Building and Grounds:				
Salaries and employee benefits		245,527		223,309
Other operating expenses		155,660		223,797
Capital outlay		-		4,908
	439,800	401,187	38,613	452,014
Sanitation:				
Salaries and employee benefits		306,829		310,874
Other operating expenses		350,929		350,358
	718,547	657,758	60,789	661,232
Total public works	2,524,341	2,375,810	148,531	2,461,295

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

For the year ended June 30, 2009

With comparative actual amounts for the year ended June 30, 2008

	2009		Variance Positive (Negative)	2008
	Budget	Actual		Actual
Recreation:				
Recreation Department:				
Salaries and employee benefits		9,021		-
Other operating expenses		51,592		47,453
	65,170	60,613	4,557	47,453
Total recreation	65,170	60,613	4,557	47,453
Debt service:				
Principal retirement		176,105		114,099
Interest		59,036		29,448
	235,220	235,141	79	143,547
Total expenditures	7,398,926	6,877,463	521,463	7,411,320
Revenue over (under) expenditures	(245,267)	(25,616)	219,651	(474,632)
Other Financing Sources (Uses):				
Operating transfers from other funds:				
Bjerg Fund	1,000	1,000	-	1,000
Fire District Fund	199,647	199,647	-	109,356
Capital Reserve Fund	-	-	-	38,836
CDBG Rosenwald Revitalization	10,720	7,600	(3,120)	-
Operating transfers to other funds:				
Pedestrian/Bikeway Capital Project	(397,000)	(397,000)	-	(93,019)
Wayfinding Capital Reserve Fund	-	-	-	(19,463.0)
Proceed from Installment financing	-	-	-	785,000
Fund balance appropriated	430,900	-	(430,900)	-
	245,267	(188,753)	(434,020)	821,710
Revenues and other sources over expenditures and other uses	\$ -	(214,369)	\$ (214,369)	347,078
Fund Balances:				
Beginning of year		3,279,426		2,932,348
End of year		\$ 3,065,057		\$ 3,279,426

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, 2009

With comparative actual amounts for the year ended June 30, 2008

	2009		Variance Positive (Negative)	2008
	Budget	Actual		Actual
Revenues:				
Impact fees - water and sewer	\$ 15,000	\$ 74,125	\$ 59,125	\$ 64,688
Sidewalks - fees in lieu	-	14,987	14,987	86,900
Fees in lieu of infrastructure	-	35,327	35,327	-
Investment earnings	25,000	61,353	36,353	40,050
CWMTF watershed easement	-	-	-	1,037,000
Donations	-	20,194	20,194	21,940
Total revenues	40,000	205,986	165,986	1,250,578
Expenditures:				
Miscellaneous	-	5,147	(5,147)	-
Revenues over expenditures	40,000	200,839	160,839	1,250,578
Other Financing Sources (Uses):				
Operating transfers from (to)				
General Fund	-	-	-	(38,836)
Water and sewer fund	-	17,582	17,582	400,000
Water and sewer capital projects funds	(547,600)	(423,200)	124,400	-
Downtown master plan fund	-	-	-	(260)
Fund balance appropriated	507,600	-	(507,600)	-
Total other financing sources (uses)	(40,000)	(405,618)	(365,618)	360,904
Revenues and other sources over (under) expenditures and other uses	\$ -	(204,779)	\$ (204,779)	1,611,482
Fund balance, beginning of year		2,567,970		956,488
Fund balance, end of year		\$ 2,363,191		\$ 2,567,970
Fund balance designated for:				
Streets and sidewalks		\$ 148,000		
Water and Sewer capital projects		1,111,000		
Clean water projects and recreation		1,087,000		
Other		17,191		
		\$ 2,363,191		

CITY OF BREVARD, NORTH CAROLINA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2009

	<u>Special Revenue</u>	
	Special Fire District Fund	Heart of Brevard Municipal Service District Fund
Assets		
Cash and cash equivalents	\$ 112,450	\$ 22
Accounts receivable, net	11,533	-
	<hr/>	<hr/>
Total assets	<u>\$ 123,983</u>	<u>\$ 22</u>
Liabilities and Fund Balances		
Liabilities:		
Due to other funds	\$ -	\$ -
	<hr/>	<hr/>
Fund balances:		
Reserved by State Statute	11,533	-
Restricted by Donor	-	-
Unreserved	112,450	22
	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 123,983</u>	<u>\$ 22</u>

Capital Projects			Permanent	Total Nonmajor
Pedestrian Bikeway Project Fund	CDBG Revitalization	Downtown Master Plan	Non-expend Bjerg Trust Fund	Governmental Funds
\$ 582,669	\$ -	\$ 6,789	\$ 59,643	\$ 761,573
-	-	-	-	11,533
\$ 582,669	\$ -	\$ 6,789	\$ 59,643	\$ 773,106
\$ 113,403.00	\$ -	\$ -	\$ -	\$ 113,403.00
113,403	-	-	-	113,403
-	-	-	-	11,533
-	-	-	55,440	55,440
469,266	-	6,789	4,203	592,730
469,266	-	6,789	59,643	659,703
\$ 582,669	\$ -	\$ 6,789	\$ 59,643	\$ 773,106

CITY OF BREVARD, NORTH CAROLINA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009**

	<u>Special Revenue</u>	
	Fire District Fund	Heart of Brevard Municipal Service District Fund
Revenues:		
Ad valorem taxes	\$ 213,000	\$ 96,360
Investment earnings	837	214
	<hr/>	
Total revenues	213,837	96,574
	<hr/>	
Expenditures:		
Economic and physical development	-	96,558
Public safety	6,102	-
	<hr/>	
Total expenditures	6,102	96,558
	<hr/>	
Revenues over (under) expenditures	207,735	16
	<hr/>	
Other Financing Sources (Uses)		
Transfers in:		
General fund	-	-
Transfers out:		
General fund	(199,647)	-
	<hr/>	
Total other financing sources (uses)	(199,647)	-
	<hr/>	
Net change in fund balances	8,088	16
	<hr/>	
Fund balance, beginning	115,895	6
	<hr/>	
Fund balance, ending	<u>\$ 123,983</u>	<u>\$ 22</u>

Capital Projects			Permanent	Total Nonmajor Governmental Funds
Pedestrian Bikeway Project Fund	CDBG Revitalization	Downtown Master Plan	Non-expend Bjerg Trust Fund	
\$ -	\$ -	\$ -	\$ -	\$ 309,360
538	155	39	1,231	3,014
538	155	39	1,231	312,374
85,872	-	-	-	182,430
-	-	-	-	6,102
85,872	-	-	-	188,532
(85,334)	155	39	1,231	123,842
554,600	-	-	-	554,600
-	(7,600)	-	(1,000)	(208,247)
554,600	(7,600)	-	(1,000)	346,353
469,266	(7,445)	39	231	470,195
-	7,445	6,750	59,412	189,508
<u>\$ 469,266</u>	<u>\$ -</u>	<u>\$ 6,789</u>	<u>\$ 59,643</u>	<u>\$ 659,703</u>

CITY OF BREVARD, NORTH CAROLINA

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

For the year ended June 30, 2009

With comparative actual amounts for the year ended June 30, 2008

	2009		Variance Positive (Negative)	2008
	Budget	Actual		Actual
Revenues:				
Ad valorem taxes	\$ 184,000	\$ 213,000	\$ 29,000	\$ 189,958
Investment earnings	1,000	837	(163)	3,568
Total revenues	185,000	213,837	28,837	193,526
Expenditures:				
Miscellaneous	6,081	6,102	(21)	220
Revenues over expenditures	178,919	207,735	28,816	193,306
Other Financing Uses:				
Operating transfer to other funds:				
General fund (for Fire Department expenditures)	(199,647)	(199,647)	-	(109,356)
Fund balance appropriated	20,728	-	(20,728)	-
Total other financing uses	(178,919)	(199,647)	(20,728)	(109,356)
Revenues and other sources over expenditures and other uses	\$ -	8,088	\$ 8,088	83,950
Fund balance, beginning of year		115,895		31,945
Fund balance, end of year		\$ 123,983		\$ 115,895

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, 2009

With comparative actual amounts for the year ended June 30, 2008

	2009		Variance	2008
	Budget	Actual	Positive (Negative)	Actual
Revenues:				
Ad valorem taxes	\$ 99,900	\$ 96,360	\$ (3,540)	\$ 98,057
Investment earnings	100	214	114	122
	100,000	96,574	(3,426)	98,179
Total revenues				
Expenditures:				
Current:				
Contracted services	100,000	96,558	3,442	98,755
	-	16	16	(576)
Revenues over (under) expenditures				
Fund balance, beginning of year		6		582
Fund balance, end of year		\$ 22		\$ 6

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, 2009**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
N.C. recreation trails grants	\$ 321,967	\$ -	\$ -	\$ -
Investment earnings	-	-	538	538
Total revenues	321,967	-	538	538
Expenditures:				
Engineering, design and construction -				
Davidson River trail	93,467	-	10,121	10,121
Gallimore Road multi-use	783,100	-	75,751	75,751
Total expenditures	876,567	-	85,872	85,872
Revenues over (under) expenditures	(554,600)	-	(85,334)	(85,334)
Other Financing Sources:				
Transfers from General Fund - Phase III	554,600	-	554,600	554,600
Total other financing sources	554,600	-	554,600	554,600
Revenues and other financing sources over (under) expenditures	\$ -	\$ -	469,266	\$ 469,266
Fund balance, beginning of year			-	
Fund balance, end of year			\$ 469,266	

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, 2009**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Grant-06-C-1590 Rosenwald Year 5	\$ 350,000	\$ 348,237	\$ -	\$ 348,237
Interest	-	564	155	719
Total revenues	350,000	348,801	155	348,956
Expenditures:				
Grant-06-C-1590 Rosenwald year 5:				
Parks, playground, recreation facilities	33,000	32,938	-	32,938
Flood & drainage improvements	193,000	196,120	-	196,120
Housing rehabilitation	22,000	21,047	-	21,047
Community building	49,500	48,751	-	48,751
Administration	52,500	52,500	-	52,500
	350,000	351,356	-	351,356
Total expenditures	350,000	351,356	-	351,356
Revenues over (under) expenditures	-	(2,555)	155	(2,400.00)
Other Financing Sources:				
Operating transfer from other funds:				
General Fund	-	10,000	(7,600)	2,400
Revenues and other sources over (under) expenditures	\$ -	\$ 7,445	(7,445)	\$ -
Fund balance, beginning of year			7,445	
Fund balance, end of year			\$ -	

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, 2009**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ 1,825	\$ 39	\$ 1,864
Total revenues	-	1,825	39	1,864
Expenditures:				
Construction	358,677	356,562	-	356,562
Revenues over (under) expenditures	(358,677)	(354,737)	39	(354,698)
Other Financing Sources:				
Operating transfer from other funds:				
Capital Reserve fund	358,677	361,487	-	361,487
Total other financing sources	358,677	361,487	-	361,487
Revenues and other sources over (under) expenditures	\$ -	\$ 6,750	39	\$ 6,789
Fund balance, beginning of year			6,750	
Fund balance, end of year			\$ 6,789	

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, 2009

With comparative actual amounts for the year ended June 30, 2008

	<u>2009</u>		Variance	<u>2008</u>
	<u>Budget</u>	<u>Actual</u>	Positive (Negative)	<u>Actual</u>
Revenues:				
Investment earnings	\$ 1,000	\$ 1,231	\$ 231	\$ 4,144
Other Financing Uses:				
Transfer to General Fund - (for French Broad Community Center Improvements)	1,000	1,000	-	1,000
Revenues over other uses	<u>\$ -</u>	231	<u>\$ 231</u>	3,144
Fund balance, beginning of year		<u>59,412</u>		<u>56,268</u>
Fund balance, end of year		<u>\$ 59,643</u>		<u>\$ 59,412</u>

CITY OF BREVARD, NORTH CAROLINA

**WATER AND SEWER FUND
STATEMENT OF NET ASSETS**

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,054,882	\$ 849,002
Accounts receivable (net)	164,257	293,271
Due from other governments	1,248	65,473
Prepaid Assets	19,357	-
Total current assets	<u>1,239,744</u>	<u>1,207,746</u>
Restricted assets:		
Cash and cash equivalents	<u>130,451</u>	115,052
Capital assets (net)	<u>12,183,828</u>	12,174,708
Total assets	<u>13,554,023</u>	<u>13,497,506</u>
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	120,915	31,520
Due to other funds	-	225,000
Installment contracts - current	<u>110,550</u>	<u>105,275</u>
Total current liabilities	<u>231,465</u>	<u>361,795</u>
Current liabilities payable from restricted assets:		
Customer deposits	<u>130,451</u>	115,052
Noncurrent liabilities:		
Compensated absences	79,852	79,244
Installment contracts - noncurrent (net)	<u>631,886</u>	<u>742,436</u>
Total noncurrent liabilities	<u>711,738</u>	<u>821,680</u>
Total liabilities	<u>1,073,654</u>	<u>1,298,527</u>
Net Assets		
Invested in capital assets, net of related debt	11,441,392	11,326,997
Unrestricted	1,038,977	871,982
Total net assets	<u>\$ 12,480,369</u>	<u>\$ 12,198,979</u>

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

For the year ended June 30, 2009

With comparative actual amounts for the year ended June 30, 2008

	2009		Variance Positive (Negative)	2008
	Budget	Actual		Actual
Revenues:				
Operating Revenues:				
Charges for utilities:				
Water	\$ 1,878,000	\$ 1,720,518	\$ (157,482)	\$ 1,681,957
Sewer	1,551,000	1,566,306	15,306	1,520,840
Taps and connection fees:				
Water	15,000	6,249	(8,751)	16,443
Sewer	10,000	14,088	4,088	18,690
Other operating revenues	82,000	66,451	(15,549)	78,944
Total operating revenues	3,536,000	3,373,612	(162,388)	3,316,874
Nonoperating Revenues:				
Interest on investments	29,000	22,046	(6,954)	16,777
Other	-	2,929	2,929	20,744
Total nonoperating revenues	29,000	24,975	(4,025)	37,521
Total revenues	3,565,000	3,398,587	(166,413)	3,354,395
Expenditures:				
Water Service:				
Water Treatment:				
Salaries and employee benefits		335,068		303,191
Other operating expenses		326,876		270,925
	674,404	661,944	12,460	574,116
Water Distribution:				
Salaries and employee benefits		196,199		262,579
Other operating expenses		225,116		224,785
Capital outlay		32,882		-
	689,055	454,197	234,858	487,364
Total water service	1,363,459	1,116,141	247,318	1,061,480

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

For the year ended June 30, 2009

With comparative actual amounts for the year ended June 30, 2008

	2009		Variance Positive (Negative)	2008
	Budget	Actual		Actual
Expenditures (continued):				
Sewer Service:				
Sewage Treatment:				
Salaries and employee benefits		296,856		320,402
Other operating expenses		427,964		346,097
Capital outlay		79,875		-
	886,555	804,695	81,860	666,499
Sewer Maintenance:				
Salaries and employee benefits		360,949		328,567
Other operating expenses		285,079		265,300
	648,716	646,028	2,688	593,867
Total sewer service	1,535,271	1,450,723	84,548	1,260,366
Debt Service				
Interest and fees		35,609		40,884
Debt principal		105,275		100,000
Total debt service	141,000	140,884	116	140,884
Nondepartmental:				
Payment to general fund in lieu of taxes and administrative expenses	490,000	490,000	-	250,000
Bracken Creek watershed	12,688	12,354	334	76,617
Miscellaneous	5,000	4,509	491	444
	507,688	506,863	825	327,061
Total expenditures	3,547,418	3,214,611	332,807	2,789,791
Revenues over expenditures	17,582	183,976	166,394	564,604
Other financing sources (uses):				
Transfer to Capital Reserve Fund	(17,582)	(17,582)	-	(400,000)
Total other financing sources (uses)	(17,582)	(17,582)	-	(400,000)
Revenues and other sources over expenditures and other uses	\$ -	\$ 166,394	\$ 166,394	\$ 164,604

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, 2009

With comparative actual amounts for the year ended June 30, 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of Budgetary Basis to Full Accrual Basis:		
Revenues over expenditures	\$ 166,394	\$ 164,604
Reconciling items:		
Payment of debt principal	105,275	100,000
Capital Projects - Capital contributions	265,600	41,206
Capital outlay	112,757	-
Bad debt write offs	-	(3,558)
Depreciation	(368,636)	(374,517)
Net income (loss)	<u>\$ 281,390</u>	<u>\$ (72,265)</u>

CITY OF BREVARD, NORTH CAROLINA

**GALLIMORE RD FORCE MAIN CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
From inception and for the year ended June 30, 2009**

	<u>Project Authorization</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:			
Engineering, design and construction	<u>390,000</u>	<u>265,390</u>	<u>265,390</u>
Revenues over (under) expenditures	(390,000)	(265,390)	(265,390)
Other Financing Sources:			
Transfers from Utility Fund capital reserve	<u>390,000</u>	<u>265,600</u>	<u>265,600</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>210</u>	<u>\$ 210</u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		<u>\$ 210</u>	

CITY OF BREVARD, NORTH CAROLINA

**CDBG INFRASTRUCTURE HOOK-UP PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

From inception and for the year ended June 30, 2009

	<u>Project Authorization</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues			
Community Development Block Grant	\$ 35,000	\$ 34,094	\$ 34,094
Expenditures:			
Engineering, design and construction	<u>35,000</u>	<u>34,094</u>	<u>34,094</u>
 Revenues over (under) expenditures	 <u><u>\$ -</u></u>	 <u><u>-</u></u>	 <u><u>\$ -</u></u>
 Fund balance, beginning of year		 <u><u>-</u></u>	
Fund balance, end of year		<u><u>\$ -</u></u>	

CITY OF BREVARD, NORTH CAROLINA

**LE CENTER CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
From inception and for the year ended June 30, 2009**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>
Revenues:				
Transylvania County	\$ 129,675	\$ 31,115	89,216	\$ 120,331
Expenditures:				
Engineering, design and construction	129,675	31,115	89,216	120,331
 Revenues over (under) 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

GENERAL FUND
 SCHEDULE OF AD VALOREM TAXES RECEIVABLE
 June 30, 2009

<u>Fiscal Year</u>	Uncollected Balance June 30, 2008	Additions	Collections And Credits	Uncollected Balance June 30, 2009
2008-2009	\$ -	\$ 3,357,345	\$ 3,341,006	\$ 16,339
2007-2008	14,348	-	10,718	3,630
2006-2007	4,635	-	1,507	3,128
2005-2006	5,200	-	1,567	3,633
2004-2005	3,964	-	1,296	2,668
2003-2004	4,190	-	699	3,491
2002-2003	8,039	-	1,839	6,200
2001-2002	4,559	-	457	4,102
2000-2001	3,404	-	445	2,959
1999-2000	2,365	-	188	2,177
1998-1999	2,459	-	2,459	-
	<u>\$ 53,163</u>	<u>\$ 3,357,345</u>	<u>\$ 3,362,181</u>	<u>48,327</u>
				Less: allowance for uncollectible accounts
				<u>(14,000)</u>
				Ad valorem taxes receivable - net
				<u>\$ 34,327</u>
				<u>Reconciliation with revenues:</u>
				Ad valorem taxes - General Fund
				<u>\$ 3,299,417</u>
				Reconciling items:
				Interest collected
				(18,317)
				Taxes written off per statute of limitations
				663
				Abatements and adjustments
				<u>80,418</u>
				Subtotal
				<u>62,764</u>
				Total collections and credits
				<u>\$ 3,362,181</u>

CITY OF BREVARD, NORTH CAROLINA

**ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY
For the Year Ended June 30, 2009**

	City - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy	\$ 659,723,239	0.495	\$ 3,265,630	\$ 3,052,171	\$ 213,459
Discoveries	21,755,647		140,241	140,241	-
Abatements	<u>(9,803,339)</u>		<u>(48,526)</u>	<u>(48,526)</u>	<u>-</u>
Total property valuation	<u>\$ 671,675,547</u>				
Net levy			3,357,345	3,143,886	213,459
Uncollected taxes at June 30, 2009			<u>(16,339)</u>	<u>(8,353)</u>	<u>(15,000)</u>
Current year's taxes collected			<u>\$ 3,341,006</u>	<u>\$ 3,135,533</u>	<u>\$ 198,459</u>
Current levy collection percentage			<u>99.51%</u>	<u>99.73%</u>	<u>92.97%</u>

**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, 2009, which collectively comprises the City of Brevard's basic financial statements, and have issued our report thereon dated December 30, 2009. 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 09-1 and 09-2 to be significant deficiencies 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 deficiencies described above, we consider 09-1 to be 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 an instance of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 09-3.

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's response and accordingly, we express no opinion of 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
December 30, 2009

CITY OF BREVARD, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2009**

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

09 – 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.

09 – 2 Financial Statement Preparation

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

Condition: The annual financial statements, footnotes, and other required disclosures are prepared by external auditors.

CITY OF BREVARD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2009

Recommendation: The cost on an entity's internal control should not outweigh the benefit. While the City does prepare monthly financial statements for internal purposes, it is not feasible at this time for the City to dedicate the resources required to perform all of the year-end financial reporting duties. Until the time that it is feasible, we believe the added oversight provided by the external auditors in preparing the City's financial statements is beneficial to the City.

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

09 – 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:

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
Capital Reserve Fund:			
Miscellaneous	\$ -	\$ 5,147	\$ (5,147)
Special Fire District:			
Miscellaneous	6,081	6,102	(21)

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.