

City of Brevard, North Carolina

Financial Statements

Year Ended June 30, 2011



CITY OF BREVARD, NORTH CAROLINA



Joe Moore
Desiree Perry
Mike Pratt

City Manager
City Clerk
City Attorney

City Council Fall 2011

Jimmy Harris (Mayor)
Wes Dickson
Charlie Landreth
Rodney Locks
Maurice Jones
Mac Morrow (Mayor Pro Tem)

City Council As of June 30, 2011

Jimmy Harris (Mayor)
Larry Canady
Rodney Locks
Mack McKeller
Mac Morrow (Mayor Pro Tem)
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, 2011, 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, 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, 2011, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general 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 5, 2011, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. 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 schedule of funding progress, schedule of employer contributions, and other post-employment benefits 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 on it.

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 fund financial statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, budgetary schedules and other schedules 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.

David Killian CPA Group, P.A.

Asheville, North Carolina
December 5, 2011

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, 2011. 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.

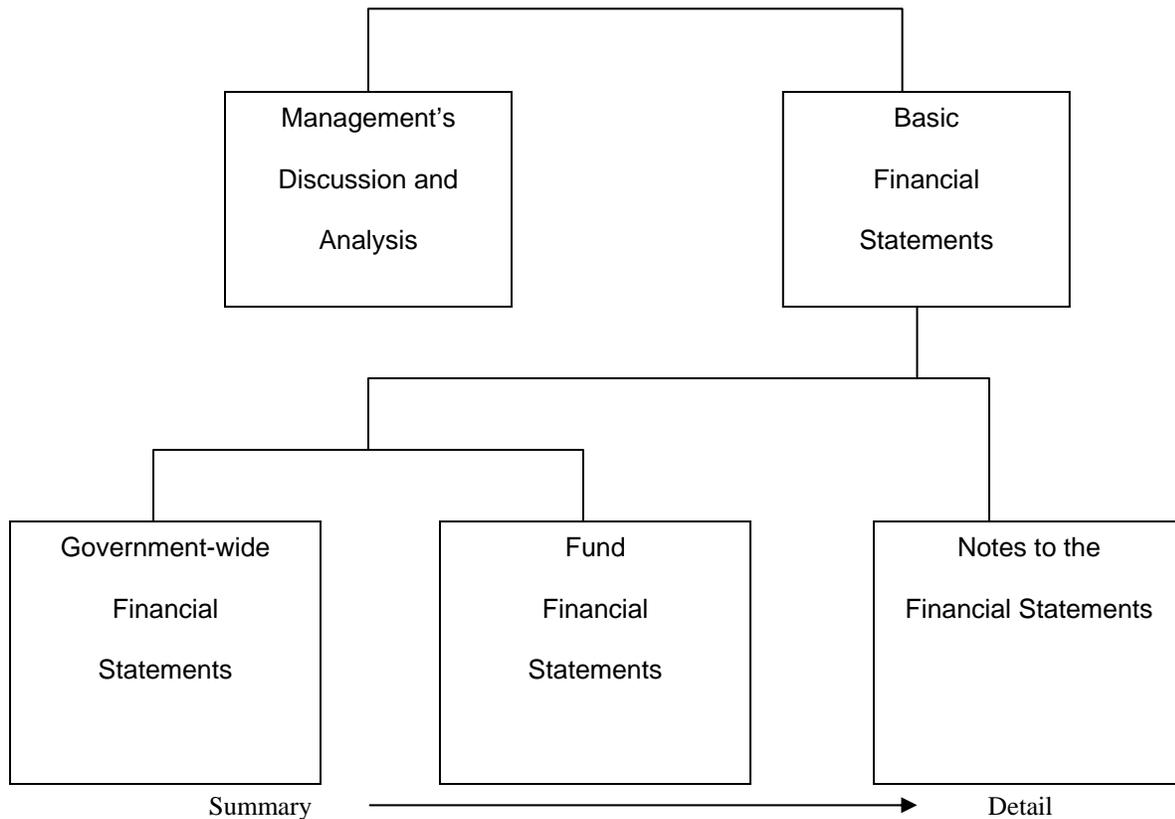
Financial Highlights

- The assets of the City of Brevard exceeded its liabilities at the close of the fiscal year by \$23,320,369 (net assets).
- The City's total net assets increased by \$1,408,205 in the current fiscal year compared to the \$1,246,995 total net assets increase in the previous fiscal year. The additional increase of net assets (\$161,210) between comparing the two fiscal years is primarily due to a property tax revenue increase, grant funding increases and expenditures remaining consistent between the two fiscal years.
- Governmental activities net assets increase of \$898,232 was comparable to the previous year increase of \$768,100. Property tax revenues increased approximately \$360,000, or 8%, mainly due to a tax levy increase of \$0.045 per one hundred dollar of tax value. This increase in revenue was offset by a public safety expense increase of approximately \$190,000, or 7%. Public safety expense increased due to salary and benefit increases to fill a vacant police chief position, state retirement increase for employer contributions and one large group medical insurance claim within the police department.
- As of the close of the current fiscal year, the City of Brevard's governmental funds reported combined ending fund balances of \$7,075,413, an increase of \$153,212 in comparison with the prior year. Approximately 44% of this total amount, or \$3,154,486, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,154,486 (42%) of total general fund expenditures for the fiscal year.
- The City of Brevard's total debt decreased by approximately \$370,000 (12%) during the current fiscal year due to repayment of debt principal. There were no new installment contracts issued in the fiscal year.
- The City of Brevard improved its North Carolina Municipal Council bond rating of 76 to 78.

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 is 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 Council 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 council; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The City of Brevard has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Brevard uses an enterprise fund to account for its water and sewer activity. This fund is the same as that function shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 25 through 45 of this report.

The City of Brevard's Net Assets
Figure 2

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Total Percentage Change</u>
	<u>2011</u>	<u>Restated 2010</u>	<u>2011</u>	<u>Restated 2010</u>	<u>2011</u>	<u>Restated 2010</u>	
Current and other assets	\$ 7,387,660	\$ 7,181,801	\$ 1,949,631	\$ 1,815,811	\$ 9,337,291	\$ 8,997,612	4%
Capital assets	<u>4,775,541</u>	<u>4,335,603</u>	<u>12,457,898</u>	<u>12,141,446</u>	<u>17,233,440</u>	<u>16,477,049</u>	5%
Total assets	12,163,201	11,517,404	14,407,529	13,957,257	26,570,730	25,474,661	4%
Long-term liabilities	2,052,305	2,312,884	593,235	713,040	2,645,540	3,025,924	-13%
Other liabilities	<u>246,764</u>	<u>238,620</u>	<u>358,057</u>	<u>297,953</u>	<u>604,821</u>	<u>536,573</u>	11%
Total liabilities	2,299,069	2,551,504	951,292	1,010,993	3,250,361	3,562,497	-9%
Net assets:							
Invested in capital assets, net of related debt	3,171,764	2,443,464	11,941,838	11,509,561	15,113,602	13,953,025	8%
Restricted	1,624,357	1,288,099	-	-	1,624,357	1,288,099	26%
Unrestricted	<u>5,068,011</u>	<u>5,234,337</u>	<u>1,514,399</u>	<u>1,436,703</u>	<u>6,582,410</u>	<u>6,671,040</u>	-1%
Total net assets	<u>\$ 9,864,132</u>	<u>\$ 8,965,900</u>	<u>\$ 13,456,237</u>	<u>\$ 12,946,264</u>	<u>\$ 23,320,369</u>	<u>\$ 21,912,164</u>	6%

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 \$23,320,369 as of June 30, 2011. The City's net assets increased by \$1,408,205 for the fiscal year ended June 30, 2011. Net assets include 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 (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$6,582,410 (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 99.45% for the year ending June 30, 2011, which is comparable to 99.72% for the year ending June 30, 2010. Property tax revenues increased approximately 8%.
- Property tax revenues increased approximately \$360,000, or 8%, mainly due to a tax levy increase of \$0.045 per one hundred dollars of assessed value.
- Public safety expense increased approximately \$190,000, or 7%, due to salary and benefit increases to fill a vacant police chief position, state retirement increase for employer contributions and one large group medical insurance claim within the police department.
- Sales tax revenues increased \$95,835.

City of Brevard Changes in Net Assets

Figure 3

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Total Percentage Change</u>
	<u>2011</u>	<u>Restated 2010</u>	<u>2011</u>	<u>Restated 2010</u>	<u>2011</u>	<u>Restated 2010</u>	
Revenues:							
Program revenues:							
Charges for services	\$ 1,672,568	\$ 1,643,130	\$ 3,655,555	\$ 3,706,141	\$ 5,328,123	\$ 5,349,271	0%
Operating grants and contributions	209,397	238,984	-	22,540	209,397	261,524	-25%
Capital grants and contributions	325,495	235,395	264,955	192,789	590,450	428,184	28%
General revenues:							
Property taxes	4,475,692	4,117,184	-	-	4,475,692	4,117,184	8%
Sales tax	1,066,053	970,218	-	-	1,066,053	970,218	9%
Other	<u>725,616</u>	<u>729,794</u>	<u>964</u>	<u>5,396</u>	<u>726,580</u>	<u>735,190</u>	-1%
Total revenues	<u>8,474,821</u>	<u>7,934,705</u>	<u>3,921,474</u>	<u>3,926,866</u>	<u>12,396,295</u>	<u>11,861,571</u>	4%
Expenses:							
General government	1,644,434	1,665,878	-	-	1,644,434	1,665,878	-1%
Public safety	2,931,245	2,741,091	-	-	2,931,245	2,741,091	7%
Public works	2,548,248	2,518,145	-	-	2,548,248	2,518,145	1%
Economic and physical development	184,430	118,996	-	-	184,430	118,996	36%
Culture and recreation	87,196	71,294	-	-	87,196	71,294	18%
Interest on long term debt	76,207	70,685	-	-	76,207	70,685	7%
Water and sewer	-	-	<u>3,516,330</u>	<u>3,428,487</u>	<u>3,516,330</u>	<u>3,428,487</u>	3%
Total expenses	<u>7,471,760</u>	<u>7,186,089</u>	<u>3,516,330</u>	<u>3,428,487</u>	<u>10,988,090</u>	<u>10,614,576</u>	3%
Increase in net assets							
before transfers	1,003,061	748,616	405,144	498,379	1,408,205	1,246,995	
Transfers	<u>(104,829)</u>	<u>19,484</u>	<u>104,829</u>	<u>(19,484)</u>	<u>-</u>	<u>-</u>	
Increase (decrease) in net assets after transfers	<u>898,232</u>	<u>768,100</u>	<u>509,973</u>	<u>478,895</u>	<u>1,408,205</u>	<u>1,246,995</u>	-7%
Net assets, beginning	<u>8,965,900</u>	<u>8,197,800</u>	<u>12,946,264</u>	<u>12,467,369</u>	<u>21,912,164</u>	<u>20,665,169</u>	
Net assets, ending	<u>\$ 9,864,132</u>	<u>\$ 8,965,900</u>	<u>\$ 13,456,237</u>	<u>\$ 12,946,264</u>	<u>\$ 23,320,369</u>	<u>\$ 21,912,164</u>	

Governmental activities. Governmental activities increased the City's net assets by \$898,232. This increase is similar to the prior year's increase. A significant portion of this increase (approximately \$360,000) resulted from a tax levy increase of \$0.045 per one hundred dollars of assessed value.

Business-type activities: Business-type activities increased the City of Brevard's net assets by \$509,973. This increase is similar to the prior year's increase. No major changes in water and sewer operations occurred during the year except for a decline in water usage by the City's customers which resulted in the decrease in overall revenue from \$3,706,141 to \$3,655,555 from 2010 to 2011.

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, unassigned 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. The Capital Reserve Fund has been consolidated into the General Fund due to change in governmental accounting reporting standards. At the

Management's Discussion and Analysis
City of Brevard

end of the current fiscal year, unassigned fund balance of the General Fund was \$3,154,486, while total fund balance reached \$6,591,666. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance of \$3,154,486 represents 40% of total General Fund expenditures for the year ended June 30, 2011.

At June 30, 2011, the governmental funds of City of Brevard reported a combined fund balance of \$7,075,413, a 2.2% increase over last year.

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 \$1,514,399. 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.

Budgetary Highlights. On June 20, 2011, the City of Brevard revised the overall budget one time for the General Fund, Utility Fund, Capital Reserve Fund (consolidated within the General Fund and presented separately), Fire District Fund, Heart of Brevard Fund, Narcotics Task Force Fund (consolidated within the General Fund), OPEB Reserve Fund (new fund), and Health Insurance Fund (new fund and consolidated within the General Fund). Generally, these budget amendments fell 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.

In addition during the year, the City adopted or amended its original budget for individual projects as follows:

On July 10, 2010, Brushy Creek Basin Sewer Infrastructure Project was approved with a budget totaling \$591,110. On December 6, 2010, Kings Creek Sewer Replacement Project was approved with a budget totaling \$18,000; and New Water Storage Tank atop Burrell Mountain Project was approved with a budget totaling \$120,900. On January 24, 2011, Downtown Master Plan Project was approved with a budget totaling \$61,000; Hap Simpson Stream Bank Restoration Project was approved with a budget totaling \$72,500; and Bracken Mountain Trail Design Project was approved with a budget totaling \$28,000. On March 21, 2011, South Broad Street Stormwater Project was approved with a budget totaling \$73,468. On June 20, 2011, Belt Press & Grit Removal Project at the Wastewater Treatment Plant was approved with a budget totaling \$1,178,750; Railroad Avenue Small Area Plan Project was approved with a budget totaling \$5,000.

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, 2011, totals \$17,233,439 (net of accumulated depreciation). These assets include land, construction in progress, buildings, infrastructure, equipment and vehicles.

Capital Asset Additions. Assets purchased included: vehicles, computer equipment, water & sewer line construction, and other capital projects. There were no major demolitions or disposals recorded this fiscal year. The major additions were associated with the construction in progress related to the city's various capital projects.

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

Figure 4

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Total Percentage Change</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
Land	\$ 319,893	\$ 319,893	\$ 212,891	\$ 212,891	\$ 532,784	\$ 532,784	0%
Construction in progress	940,208	341,590	886,676	412,764	1,826,884	754,354	59%
Buildings and infrastructure	1,290,197	1,347,303	10,946,556	11,097,017	12,236,753	12,444,320	-2%
Equipment	208,654	240,541	173,249	183,820	381,903	424,361	-11%
Vehicles and motorized equipment	<u>2,016,589</u>	<u>2,086,276</u>	<u>238,526</u>	<u>234,954</u>	<u>2,255,115</u>	<u>2,321,230</u>	-3%
Total net assets	<u>\$ 4,775,541</u>	<u>\$ 4,335,603</u>	<u>\$ 12,457,898</u>	<u>\$ 12,141,446</u>	<u>\$ 17,233,439</u>	<u>\$ 16,477,049</u>	4%

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, 2011, the City of Brevard had no outstanding bonds. Debt decreased for Governmental Activities by a net amount of \$269,579 due to principal payments. For Business-Type Activities, debt decreased net of \$109,805 mainly due to debt principal payments.

City of Brevard's Outstanding Debt

Figure 5

	<u>Balance</u>		<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	
	<u>June 30, 2010</u>				<u>June 30, 2011</u>	
Governmental Activities:						
Installment Contracts	\$ 1,860,910	\$ -	\$ 220,650	\$ 1,640,260		
Compensated Absences	218,600	120,636	100,000	239,236		
Net pension obligations	202,146	-	29,337	172,809		
Other employment benefits	<u>31,228</u>	<u>-</u>	<u>31,228</u>	<u>-</u>		
Total	<u>\$ 2,312,884</u>	<u>\$ 120,636</u>	<u>\$ 381,215</u>	<u>\$ 2,052,305</u>		
Business Type Activities:						
Installment Contracts	\$ 631,886	\$ -	\$ 115,826	\$ 516,060		
Compensated Absences	<u>71,154</u>	<u>66,021</u>	<u>60,000</u>	<u>77,175</u>		
Total	<u>\$ 703,040</u>	<u>\$ 66,021</u>	<u>\$ 175,826</u>	<u>\$ 593,235</u>		

The City of Brevard maintained for the 16th 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 78, 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% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Brevard is \$76.4 million. The City has no bonds authorized or un-issued at June 30, 2011.

Additional information regarding the City of Brevard's long-term debt can be found in Note 9 beginning on page 42 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.

<u>County and State</u>	<u>Work Force</u>	<u>June 2011 Unemployment Rates</u>	
		<u>Number</u>	<u>Percent of Work Force</u>
Transylvania	13,160	1,156	8.8%
Buncombe	121,043	9,882	8.2%
Henderson	49,015	3,890	7.9%
North Carolina	4,503,162	447,369	9.9%

Source: NC Employment Security Commission – June 2011 Seasonally Adjusted

- Occupancy rates for business, office and retail space within the downtown municipal service district (Heart of Brevard) fell to 76% from the previous year rate of 90%.
- Tourism remains a vital and growing part of the Brevard economy. Domestic tourism in Transylvania County generated an economic impact of \$71.75 million for the calendar year 2010. This was a \$3.34 million increase from 2009.

Transylvania County

Year	Tourism Revenue (\$ millions)	% Growth (Decline)
2006	75.64	8%
2007	80.14	6%
2008	77.07	(4%)
2009	68.41	(11%)
2010	71.75	.5%

*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.

	2006	2007	2008	2009	2010
City of Brevard	99.26%	99.56%	99.51%	99.72%	99.45%
Statewide	96.63%	96.69%	96.92%	97.00%	97.17%

*Source: State Treasurer's Office, Local Government Commission

- Within the City, sales tax generated from taxable sales increased 7.4% from \$975,236 in the fiscal year 2009-2010 to \$1,047,421 in the fiscal year 2010-2011.

Budget Highlights for the Fiscal Year Ending June 30, 2012

General Fund

- The general fund budget as adopted increased from \$8,032,914 to \$8,328,033 due expected increases in sales tax revenue and other intergovernmental revenues.

Water and Sewer Fund

- Water and Sewer customer receipts decreased approximately \$160,000 for fiscal year 2010-2011. This is due to a modest decrease in water usage. Management expects water usage in fiscal year 2011-2012 to remain consistent with fiscal year 2010-2011 or slightly increase.
- The City experienced a growth in customer base of 13 new utility customers during the fiscal year 2010-2011.
- 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 raised rates by 5% effective August 1, 2011 to be used mainly for future capital improvements.

Other Information:

The following information was provided by the Transylvania County Building Permitting and Enforcement Department for the calendar year ending December 31, 2010:

The building industry declined for the calendar year 2010 in Transylvania County. Below are statistics for calendar year 2010:

Detailed Residential Construction Value 2010

New home value: City - 10 homes - \$2,153,790

New home value: County - 88 homes - \$27,442,646

Addition/Remodel Value: City - 72 homes - \$1,743,570

Addition/Remodel Value: County - 172 homes - \$5,900,044

Manufactured Homes: City - 6 homes - \$158,400

Manufactured Homes: County - 39 homes - \$1,231,806

Detailed Commercial Construction Value 2010

New: City - 8 - \$4,082,785

New: County - 10 - \$1,372,088

Addition/Remodel: City - 33 - \$1,026,929

Addition/Remodel: County - 10 - \$401,009

The number of new house permits in 2010 compared to 2009 was up 29%.

The number of new house permits in 2010 compared to 2007 was down 59%.

The total construction value in 2010 compared to 2009 was down 7%.

The construction value of commercial construction in 2010 compared to 2007 was down 71%.

Management's Discussion and Analysis
City of Brevard

New home construction growth was strongest in the lower and upper 64 West area, pushed by many new homes between Brevard, Cathey's Creek and Rosman. This trend was followed in descending strength by the Toxaway area, 276 South, and City of Brevard.

Construction Values for last 5 years in the City of Brevard

2010 - \$ 9,165,474
2009 - \$ 9,856,346
2008 - \$ 39,879,929
2007 - \$ 31,923,222
2006 - \$ 17,719,189

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 City Manager as follows:

Joe Moore, City Manager
City of Brevard
95 W. Main Street
Brevard, N. C. 28712
828-885-5600
828-883-2853 - Fax
www.cityofbrevard.com

CITY OF BREVARD, NORTH CAROLINA

Exhibit 1

STATEMENT OF NET ASSETS

June 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	City of Brevard ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 5,564,840	\$ 1,440,933	\$ 7,005,773	\$ 142,873
Taxes receivable (net)	65,010	-	65,010	-
Accrued interest receivable on taxes	12,000	-	12,000	-
Accounts receivable (net)	124,747	315,484	440,231	658
Due from other governments	609,108	67,397	676,505	-
Internal balances	(55,375)	55,375	-	-
Inventories	44,491	-	44,491	220,436
Prepaid items	-	70,442	70,442	6,870
Net OPEB asset	36,483	-	36,483	-
Total current assets	<u>6,401,304</u>	<u>1,949,631</u>	<u>8,350,935</u>	<u>370,837</u>
Restricted assets:				
Cash and cash equivalents	<u>986,356</u>	<u>-</u>	<u>986,356</u>	<u>-</u>
Capital assets:				
Land, non-depreciable improvements & construction in progress	1,260,101	1,099,567	2,359,668	-
Other capital assets, net of depreciation	3,515,440	11,358,331	14,873,771	47,418
Total capital assets	<u>4,775,541</u>	<u>12,457,898</u>	<u>17,233,439</u>	<u>47,418</u>
Total assets	<u>12,163,201</u>	<u>14,407,529</u>	<u>26,570,730</u>	<u>418,255</u>
LIABILITIES				
Current liabilities:				
Accounts payable	227,728	196,558	424,286	100,927
Accrued interest payable	16,000	10,551	26,551	-
Unearned income	3,036	-	3,036	-
Customer deposits	-	150,948	150,948	-
Long-term liabilities:				
Due within one year	323,728	181,103	504,831	-
Due in more than one year	1,728,577	412,132	2,140,709	-
Total liabilities	<u>2,299,069</u>	<u>951,292</u>	<u>3,250,361</u>	<u>100,927</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,171,764	11,941,838	15,113,602	47,418
Restricted for:				
Stabilization by State statute	714,854	-	714,854	-
Capital projects	685,946	-	685,946	-
Public safety	218,186	-	218,186	-
Other purposes	5,371	-	5,371	92,366
Unrestricted	<u>5,068,011</u>	<u>1,514,399</u>	<u>6,582,410</u>	<u>177,544</u>
Total net assets	<u>\$ 9,864,132</u>	<u>\$ 13,456,237</u>	<u>\$ 23,320,369</u>	<u>\$ 317,328</u>

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, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,644,434	\$ 514,754	\$ 1,250	\$ -
Public safety	2,931,245	7,445	6,907	-
Public works	2,548,248	1,130,277	201,240	-
Economic and physical development	184,430	-	-	325,495
Cultural and recreation	87,196	20,092	-	-
Interest on long-term debt	76,207	-	-	-
Total governmental activities	<u>7,471,760</u>	<u>1,672,568</u>	<u>209,397</u>	<u>325,495</u>
Business-type activities:				
Water and sewer	<u>3,528,012</u>	<u>3,655,555</u>	<u>-</u>	<u>276,637</u>
Total business-type activities	<u>3,528,012</u>	<u>3,655,555</u>	<u>-</u>	<u>276,637</u>
Total primary government	<u>\$ 10,999,772</u>	<u>\$ 5,328,123</u>	<u>\$ 209,397</u>	<u>\$ 602,132</u>
Component unit:				
ABC Board	<u>\$ 2,410,735</u>	<u>\$ 2,545,539</u>	<u>\$ -</u>	<u>\$ -</u>
Total component unit	<u>\$ 2,410,735</u>	<u>\$ 2,545,539</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property taxes, levied for general purpose

Sales taxes

Other taxes

Distribution from component unit-ABC Board

Unrestricted investment earnings

Gain (loss) on sale of capital assets

Miscellaneous

Total general revenues not including transfers

Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning (restated)

Net assets, ending

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component
			Unit
Governmental	Business-type		City of
Activities	Activities	Total	Brevard ABC
			Board
\$ (1,128,430)	\$ -	\$ (1,128,430)	\$ -
(2,916,893)	-	(2,916,893)	-
(1,216,731)	-	(1,216,731)	-
141,065	-	141,065	-
(67,104)	-	(67,104)	-
(76,207)	-	(76,207)	-
<u>(5,264,300)</u>	<u>-</u>	<u>(5,264,300)</u>	<u>-</u>
-	404,180	404,180	-
-	404,180	404,180	-
<u>(5,264,300)</u>	<u>404,180</u>	<u>(4,860,120)</u>	<u>-</u>
-	-	-	134,804
-	-	-	134,804
4,475,692	-	4,475,692	-
1,066,053	-	1,066,053	-
560,323	-	560,323	-
136,219	-	136,219	(136,219)
16,051	964	17,015	348
493	-	493	(844)
12,530	-	12,530	72
<u>6,267,361</u>	<u>964</u>	<u>6,268,325</u>	<u>(136,643)</u>
<u>(104,829)</u>	<u>104,829</u>	<u>-</u>	<u>-</u>
<u>6,162,532</u>	<u>105,793</u>	<u>6,268,325</u>	<u>(136,643)</u>
898,232	509,973	1,408,205	(1,839)
8,965,900	12,946,264	21,912,164	319,167
<u>\$ 9,864,132</u>	<u>\$ 13,456,237</u>	<u>\$ 23,320,369</u>	<u>\$ 317,328</u>

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

CITY OF BREVARD, NORTH CAROLINA

Exhibit 3

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2011

	<u>Major Fund</u>		<u>Total</u>
	<u>General Fund</u>	<u>Total Non- Major Funds</u>	<u>Governmental Funds</u>
ASSETS			
Cash and cash equivalents, unrestricted	\$ 5,564,840	\$ -	\$ 5,564,840
Cash and cash equivalents, restricted	502,081	484,275	986,356
Receivables, net:			
Taxes	65,010	-	65,010
Accounts	104,612	20,135	124,747
Due from other governments	540,534	68,574	609,108
Due from other funds	74,224	-	74,224
Inventories	44,491	-	44,491
Total assets	<u>\$ 6,895,792</u>	<u>\$ 572,984</u>	<u>\$ 7,468,776</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	212,715	15,013	227,728
Due to other funds	55,375	74,224	129,599
Deferred revenue	33,000	-	33,000
Unearned revenue	3,036	-	3,036
Total liabilities	<u>304,126</u>	<u>89,237</u>	<u>393,363</u>
Fund balances:			
Reserved for:			
Nonspendable:			
Inventories	44,491	-	44,491
Perpetual maintenance	-	54,440	54,440
Restricted:			
Stabilization by State statute	692,969	21,885	714,854
Public safety	102,081	116,105	218,186
Capital projects	400,000	285,946	685,946
Committed	1,697,952	-	1,697,952
Assigned	499,687	5,371	505,058
Unassigned	3,154,486	-	3,154,486
Total fund balances	<u>6,591,666</u>	<u>483,747</u>	<u>7,075,413</u>
Total liabilities and fund balances	<u>\$ 6,895,792</u>	<u>\$ 572,984</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.	4,775,541
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.	12,000
Liabilities for earned but deferred revenues in fund statements.	33,000
Some liabilities and assets, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	(2,031,822)
Net assets of governmental activities	<u>\$ 9,864,132</u>

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

CITY OF BREVARD, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	<u>Major Fund</u>		<u>Total</u>
	<u>General Fund</u>	<u>Total Non-Major</u>	<u>Governmental</u>
		<u>Funds</u>	<u>Funds</u>
REVENUES			
Ad valorem taxes	\$ 4,106,271	\$ 363,401	\$ 4,469,672
Other taxes and licenses	1,108,145	-	1,108,145
Unrestricted intergovernmental	654,450	-	654,450
Restricted intergovernmental	213,642	325,495	539,137
Sales and services	1,668,323	-	1,668,323
Investment earnings	14,006	2,045	16,051
Miscellaneous	12,530	-	12,530
Total revenues	<u>7,777,367</u>	<u>690,941</u>	<u>8,468,308</u>
EXPENDITURES			
Current:			
General government	1,640,400	-	1,640,400
Public safety	2,735,358	-	2,735,358
Public works	2,671,610	-	2,671,610
Economic and physical development	-	783,049	783,049
Cultural and recreation	83,486	-	83,486
Debt service:			
Principal	220,650	-	220,650
Interest and other charges	76,207	-	76,207
Total expenditures	<u>7,427,711</u>	<u>783,049</u>	<u>8,210,760</u>
Excess (deficiency) of revenues over expenditures	<u>349,656</u>	<u>(92,108)</u>	<u>257,548</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	459,950	135,387	595,337
Transfers to other funds	(448,216)	(251,950)	(700,166)
Proceeds from sale of capital assets	493	-	493
Total other financing sources (uses)	<u>12,227</u>	<u>(116,563)</u>	<u>(104,336)</u>
Net change in fund balances	361,883	(208,671)	153,212
Fund balances, beginning (restated)	6,229,783	692,418	6,922,201
Fund balances, ending	<u>\$ 6,591,666</u>	<u>\$ 483,747</u>	<u>\$ 7,075,413</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, 2011

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

Net changes in fund balances - total governmental funds	\$ 153,212
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	439,938
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	6,020
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	78,412
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>220,650</u>
Total changes in net assets of governmental activities	<u><u>\$ 898,232</u></u>

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

CITY OF BREVARD, NORTH CAROLINA

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

For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 4,041,864	\$ 4,041,864	\$ 4,106,271	\$ 64,407
Other taxes and licenses	1,033,000	1,033,000	1,108,145	75,145
Unrestricted intergovernmental	634,900	659,900	654,450	(5,450)
Restricted intergovernmental	196,000	196,000	213,642	17,642
Sales and services	1,556,750	1,556,750	1,588,948	32,198
Investment earnings	15,100	20,100	9,253	(10,847)
Miscellaneous	2,000	2,000	10,430	8,430
Total revenues	<u>7,479,614</u>	<u>7,509,614</u>	<u>7,691,139</u>	<u>181,525</u>
Expenditures:				
Current:				
General government	1,873,712	1,856,212	1,571,886	284,326
Public safety	3,073,862	2,922,812	2,735,358	187,454
Public works	2,901,570	2,906,857	2,671,610	235,247
Cultural and recreation	83,770	83,770	83,486	284
Debt service:				
Principal retirement	-	228,353	220,650	7,703
Interest and other charges	-	59,060	76,207	(17,147)
OPEB expense	-	17,500	17,500	-
Contingency	100,000	-	-	-
Total expenditures	<u>8,032,914</u>	<u>8,074,564</u>	<u>7,376,697</u>	<u>697,867</u>
Revenues over (under) expenditures	<u>(553,300)</u>	<u>(564,950)</u>	<u>314,442</u>	<u>879,392</u>
Other financing sources (uses):				
Transfers from other funds	468,300	484,950	862,024	377,074
Transfers to other funds	-	(128,000)	(140,387)	(12,387)
Proceeds from sale of capital assets	-	-	493	493
Fund balance appropriated	85,000	208,000	-	(208,000)
Total other financing sources (uses)	<u>553,300</u>	<u>564,950</u>	<u>722,130</u>	<u>157,180</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>1,036,572</u>	<u>\$ 1,036,572</u>
Fund balance, beginning			<u>3,457,142</u>	
Fund balance, ending			4,493,714	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			4,753	
Impact fees and donations			81,475	
Transfer-in			125,000	
Transfer-out			(834,903)	
Expenditures			(51,014)	
Fund Balance, Beginning (Capital Reserve Fund)			<u>2,772,641</u>	
Fund Balance, Ending (Exhibit 4)			<u>\$ 6,591,666</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, 2011

	<u>Major Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,440,933
Accounts receivable (net)	315,484
Due from other governments	67,397
Due from other funds	55,375
Prepaid expenses	70,442
Total current assets	<u>1,949,631</u>
Noncurrent assets:	
Capital assets:	
Land and other non-depreciable assets	1,099,567
Other capital assets, net of depreciation	11,358,331
Capital assets (net)	<u>12,457,898</u>
Total noncurrent assets	<u>12,457,898</u>
Total assets	<u>14,407,529</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	196,558
Customer deposits	150,948
Compensated absences - current	60,000
Installment contracts- current	121,103
Total current liabilities	<u>539,160</u>
Noncurrent liabilities:	
Compensated absences	17,175
Installment contracts - noncurrent (net)	394,957
Total noncurrent liabilities	<u>412,132</u>
Total liabilities	<u>951,292</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,941,838
Unrestricted	1,514,399
Total net assets	<u>\$ 13,456,237</u>

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

CITY OF BREVARD, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2011

	Major Enterprise Fund
	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 3,455,822
Water and sewer taps	130,685
Other operating revenues	69,048
Total operating revenues	3,655,555
OPERATING EXPENSES	
Water treatment and distribution	1,000,539
Waste collection and treatment	1,592,501
Payment to general fund in lieu of taxes & admin expenses	490,000
Depreciation	380,884
Other	41,479
Total operating expenses	3,505,403
Operating income	150,152
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	964
Interest and other fees	(22,609)
Total nonoperating revenue (expenses)	(21,645)
Income before contributions and transfers	128,507
Capital contributions	276,637
Transfers from other funds	307,829
Transfers to other funds	(203,000)
Change in net assets	509,973
Total net assets, beginning	12,946,264
Total net assets, ending	\$ 13,456,237

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, 2011

	Major Enterprise Fund
	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,643,781
Cash paid for goods and services	(1,888,866)
Cash paid to or on behalf of employees for services	(1,234,854)
Net cash provided by operating activities	520,061
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Due to (from) other funds	(19,370)
Transfers to other funds, net	104,829
Net cash used by noncapital financing activities	85,459
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(697,336)
Principal paid on installment obligation	(115,826)
Interest paid on installment obligation	(25,058)
Capital contributions	424,569
Net cash used by capital and related financing activities	(413,651)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	964
Net cash provided by investing activities	964
Net increase in cash and cash equivalents	192,833
Balances, beginning of year	1,248,100
Balances, end of year	\$ 1,440,933
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 150,152
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	380,884
Changes in assets and liabilities:	
Accounts receivable	(14,236)
Prepaid assets	(55,313)
Accounts payable and accrued liabilities	60,091
Customer deposits	2,462
Accrued compensated absences	(3,979)
Total adjustments	369,909
Net cash provided by operating activities	\$ 520,061

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

CITY OF BREVARD, NORTH CAROLINA

STATEMENT OF FIDUCIARY NET ASSETS
OPEB Trust Fund
 June 30, 2011

	<u>OPEB Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ 81,304
Total assets	<u>\$ 81,304</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ -
Total liabilities	<u>-</u>
NET ASSETS	
Assets held in trust for retiree health benefits	<u>\$ 81,304</u>

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

CITY OF BREVARD, NORTH CAROLINA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 OPEB Trust Fund
 June 30, 2011

	<u>OPEB Trust Fund</u>
ADDITIONS	
Employer contributions	\$ 81,264
Investment income:	
Interest	40
Total additions	<u>81,304</u>
NET ASSETS	
Assets held in trust for retiree health benefits	<u><u>\$ 81,304</u></u>

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

CITY OF BREVARD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

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, 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, proprietary and fiduciary – 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 non-major 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.

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. Heart of Brevard taxes are legally restricted to expenditures for those specific activities.

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 six capital project funds: the Pedestrian Bikeway Project, the Wayfinding Capital Reserve Fund, the Downtown Master Plan, the Bracken Mountain Trail, the Hap Simpson Stream Bank Restoration, and the Broad River CDBG.

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 County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. 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.

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 Special 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, Wayfinding Project Fund, Downtown Master Plan Capital Project Fund, Bracken Mountain Trail Capital Project Fund, Hap Simpson Stream Bank Restoration Capital Project Fund, and the Broad River CDBG Capital Project 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. 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. During the year, amendments to the original budget were necessary. During the year, the City amended its original budget with one amendment for all funds. In addition, the following projects and budgets were separately approved: Brushy Creek Basin Sewer Infrastructure Project, Kings Creek Sewer Replacement Project, New Water Storage Tank atop Burrell Mountain Project, Downtown Master Plan Project, Hap Simpson Stream Bank Restoration Project, Bracken Mountain Trail Design Project, South Broad Street Stormwater Project, and the Belt Press & Grit Removal Project.

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 Super NOW 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

Restricted assets include monies or other resources, the use of which is restricted by legal or contractual requirements.

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, 2010.

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	10-75 years
Buildings	15-50 years
Building improvements	20-50 years
Depreciable land improvements	20 years
Vehicles	4-10 years
Furniture and equipment	5-15 years
Computer equipment	3-5 years

8. Construction cost – Capitalization

In the proprietary fund, construction costs include costs incurred in the construction of assets including engineering fees.

9. 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 when issued is reported as other financing sources and principal and interest payments are reported as expenditures. No new debt was issued during the year ended June 30, 2011.

10. 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.

11. Net Assets/Fund Balances

Net Assets

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.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable fund balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of inventories, which are not spendable resources.

Perpetual maintenance – This classification includes amounts that are restricted for specific purposes imposed by a trust for maintenance of the City.

Restricted fund balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for stabilization by State statute – portion of fund balance that is restricted by State statute [G.S. 159-8(a)].

Restricted for public safety – portion of the fund balance that is available for appropriation but legally segregated to enhance the ability of the police department to deter and investigate crimes, especially drug offenses. This amount represents the \$5,171 unexpended balance of the unauthorized substance tax received from the State, \$8,487 remaining balance of federal equitable sharing and \$88,423 unexpended balance of the drug task force.

Restricted for capital projects – portion of the fund balance that is restricted to a capital project.

Committed fund balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the City of Brevard's governing body (highest level of decision-making authority.) Any changes or removal of specific purposes requires majority action by the governing body.

Assigned fund balance – portion of fund balance that the City of Brevard intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.

Unassigned fund balance – portion of total fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The City of Brevard does not have a formal revenue spending policy. However, it is management's practice to use resources in the following hierarchy: federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification expenditures are typically spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

The City of Brevard has not adopted a minimum fund balance policy. However, the City's management monitors fund balance levels and strives to maintain fund balance at a level that is appropriate for its size.

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	\$ 10,455,714
Less accumulated depreciation	<u>(5,680,173)</u>
Net capital assets	4,775,541
Accrued interest receivable in the government-wide statements as these funds are not available and therefore deferred in the fund statements	12,000
Net OPEB asset relating to a negative net pension obligation is not a financial resource and, therefore, is not reported in the funds	36,483
Liabilities for revenue deferred but earned and therefore recorded in the fund statements but not the government-wide	33,000
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:	
Installment contracts	(1,640,260)
Compensated absences and pension	(412,045)
Accrued interest payable	<u>(16,000)</u>
Total adjustment	<u>\$ 2,788,719</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	\$ 929,990
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	(490,052)
Principal payments on debt owed are recorded as a use only in the statement of net assets of the government-wide statements	220,650
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	2,000
Pension expense	29,337
Accrued compensated absences	(20,636)
Net other post employment benefit asset (obligation)	67,711
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, 2010	(12,000)
Recording of interest revenue deferred in fund statements at June 30, 2011	12,000
Reversal of deferred tax revenue recorded at July 1, 2010	(26,980)
Recording of tax receipts deferred in the fund statements as of June 30, 2011	<u>33,000</u>
Total adjustment	<u>\$ 745,020</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, Water and Sewer 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. Expenditure for the following was in excess of the amounts appropriated in the budget ordinance and project ordinances, respectively:

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Debt service			
Principal and interest	\$ 287,413	\$ 296,857	\$ (9,444)

The variance of \$9,444 exceeded the budgeted expenditure due to the omission of one interest payment in budget preparation as of June 30, 2011. Management will more closely review the debt amortization schedule to ensure the budget agrees to the debt and interest payment amortization schedules in future years.

General Fund:			
Other financing sources (uses):			
Transfer to Other Funds	\$ (128,000)	\$ (140,387)	\$ (12,387)

Water and Sewer Fund:			
Other financing sources (uses):			
Transfer to Capital Reserve Fund	\$ -	\$ (125,000)	\$ (125,000)
Transfer to General Fund	-	(78,000)	(78,000)

The transfer variances exceeded the budgeted expenditure due to not including these transfers in the budget preparation process. Management will more closely monitor and review the transfers to ensure transfers are approved in the budgeting process.

Note 3 – Cash and Investments1. 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, 2011, the City's deposits had a carrying amount of \$5,934,239 and a bank balance of \$6,167,965. Of the bank balance, \$513,658 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2011, the City's petty cash fund totaled \$650.

The carrying amount of deposits for the ABC Board was \$142,873 and the bank balance was \$240,809. All of the bank balance of the ABC Board was covered by federal depository insurance.

2. Investments

At June 30, 2011, the City of Brevard had \$2,138,274 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.

3. Reconciliation of Cash and Cash Equivalents

A reconciliation of cash and cash equivalents as shown on the government-wide statement of net assets and the statement of fiduciary net assets is as follows:

Reported value of deposits	\$ 5,934,239
Petty cash	650
Fair value of investments	<u>2,138,274</u>
	<u>\$ 8,073,163</u>
Statement of Net Assets	
Cash and cash equivalents	\$ 7,005,773
Cash and cash equivalents, restricted	986,356
Statement of Fiduciary Net Assets	
Cash and cash equivalents, restricted	<u>81,034</u>
	<u>\$ 8,073,163</u>

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	\$ 13,892
Allowance for uncollectible trash service receivables	12,000
Water and Sewer Fund:	
Allowance for uncollectible utility receivables	\$ 105,000

Note 5 – Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 319,893	\$ -	\$ -	\$ 319,893
Construction in progress	341,590	598,618	-	940,208
Total capital assets not being depreciated	<u>661,483</u>	<u>598,618</u>	<u>-</u>	<u>1,260,101</u>
Capital assets being depreciated:				
Buildings and infrastructure	3,098,906	-	-	3,098,906
Equipment	946,071	36,364	-	982,435
Vehicles and motorized equipment	4,837,398	295,008	18,134	5,114,272
Total capital assets being depreciated	<u>8,882,375</u>	<u>331,372</u>	<u>18,134</u>	<u>9,195,613</u>
Less accumulated depreciation for:				
Buildings and infrastructure	1,751,603	57,106	-	1,808,709
Equipment	705,530	68,251	-	773,781
Vehicles and motorized equipment	2,751,122	364,695	18,134	3,097,683
Total accumulated depreciation	<u>5,208,255</u>	<u>\$ 490,052</u>	<u>\$ 18,134</u>	<u>5,680,173</u>
Total capital assets being depreciated, net	<u>3,674,120</u>			<u>3,515,440</u>
Governmental activities capital assets, net	<u>\$ 4,335,603</u>			<u>\$ 4,775,541</u>

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

General government	\$ 84,721
Public safety	291,567
Public works	110,054
Cultural and recreational	<u>3,710</u>
Total depreciation expense	<u>\$ 490,052</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 212,891	\$ -	\$ -	\$ 212,891
Construction in progress	412,764	622,088	148,176	886,676
Total capital assets not being depreciated	<u>625,655</u>	<u>622,088</u>	<u>148,176</u>	<u>1,099,567</u>
Capital assets being depreciated:				
Plant and distribution systems	17,691,609	148,175	-	17,839,784
Maintenance equipment and furniture	637,167	25,949	-	663,116
Vehicles	707,591	49,300	-	756,891
Total capital assets being depreciated	<u>19,036,367</u>	<u>223,424</u>	<u>-</u>	<u>19,259,791</u>
Less accumulated depreciation for:				
Plant and distribution systems	6,594,592	298,637	-	6,893,229
Maintenance equipment and furniture	453,347	36,520	-	489,867
Vehicles	472,637	45,727	-	518,364
Total accumulated depreciation	<u>7,520,576</u>	<u>\$ 380,884</u>	<u>\$ -</u>	<u>7,901,460</u>
Total capital assets being depreciated, net	<u>11,515,791</u>			<u>11,358,331</u>
Water and sewer fund capital assets, net	<u>\$12,141,446</u>			<u>\$12,457,898</u>

Footnote Disclosure:**Construction commitments**

The government has the following commitments with contractors for active construction projects as of June 30, 2011:

<u>Project</u>	<u>Spent-to- Date</u>	<u>Remaining Commitment</u>
Water Infrastructure Improvements	\$ 430,202	\$ 50,577
Water Treatment Plant Capital Improvements	212,436	67,604
	<u>\$ 642,638</u>	<u>\$ 118,181</u>

Discretely presented component unit:

Activity for the ABC Board for the year ended June 30, 2011 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets being depreciated:				
Leasehold improvements	\$ 53,520	\$ -	\$ -	\$ 53,520
Office, store and warehouse equipment	86,694	19,948	24,748	81,894
Law enforcement equipment	26,021	-	24,291	1,730
Total capital assets being depreciated	<u>166,235</u>	<u>19,948</u>	<u>29,091</u>	<u>137,144</u>
Less accumulated depreciation	<u>110,411</u>	<u>\$ 13,508</u>	<u>\$ 34,193</u>	<u>89,726</u>
ABC Board capital assets, net	<u>\$ 55,824</u>			<u>\$ 47,418</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 6.97% and 7.04%, 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, 2011, 2010, and 2009 were \$240,081, \$177,392, and \$179,752, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$12,417, \$10,059, and \$10,341, 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, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	6
Active plan members	<u>23</u>
Total	<u><u>29</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, 2010 actuarial valuation using the projected unit credit actuarial cost method.

4. Funded Status and Funding Process

As of December 31, 2010, the most recent actuarial valuation date, the plan was not fully funded. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.0%. 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	\$ 52,404
Interest on net pension obligation	10,107
Adjustment to annual required contribution	<u>(10,822)</u>
Annual pension cost	51,689
Contributions made	<u>(81,026)</u>
Decrease in net pension obligation	(29,337)
Net pension obligation beginning of fiscal year	<u>202,146</u>
Net pension obligation end of fiscal year	<u>\$ 172,809</u>

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 54,726	126.22%	\$ 233,389
2010	47,097	166.34%	202,146
2011	51,689	156.76%	172,809

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, 1410 Mail Service Center, 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, 2011 were \$61,739, which consisted of \$47,621 from the City and \$14,118 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, 1410 Mail Service Center, 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 Benefits (OPEB)

Plan Description – Under the terms of a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). As of July 1, 2010, this plan provides postemployment healthcare 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. These employees may elect to stay on the group health policy until they are Medicare eligible. Retirees pay full premium costs to cover themselves and their dependent(s). Coverage can continue until they become Medicare-eligible. The City will contribute \$750 per year into a Health Savings Account (HSA) for eligible retirees. The retiree may continue dependent coverage (and pay the full cost of this coverage) if enrolled in dependent coverage at the time of retirement. Dependent coverage terminates upon the retiree becoming eligible for Medicare or attaining age 65. The City has elected to partially pay the future overall cost of coverage for these benefits. The City has placed \$81,264 into a separate bank account designated for the use of this HCB Plan. These funds are considered to be in an irrevocable trust. Thereby, the \$81,264 is included as being funded for the year ended June 30, 2011. The City Council may amend the benefit provisions. A separate report was not issued for the HCB Plan.

Membership of the HCB Plan consisted of the following at December 31, 2010, the date of the latest actuarial version:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	-	2
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	66	23
Total	66	25

Funding Policy – The retirees pays the full cost of coverage for the healthcare benefits under a City resolution that can be amended by City Council. The City's members pay the following monthly premiums:

Tier	Cost
Retiree Only	\$ 462
Retiree and Children	757
Retiree and Spouse	924
Family	1,155

Retirees contributed \$8,173 in premiums for the year ended June 30, 2011.

The current annual required contribution rate (ARC) is .41% of annual covered payroll. The City obtains healthcare coverage through private insurers. The City's obligation to contribute to HCB Plan is established, and may be amended, by the City Council.

Summary of Significant Accounting Policies – Postemployment expenditures are made from the General Fund which is maintained on the modified accrual basis of accounting. Although, \$81,264 has been placed into an irrevocable trust, the City pays for retiree health costs from the general fund as they come due.

Annual OPEB Cost and Net OPEB (Asset) Obligation – The City’s annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB (asset) obligation for the healthcare benefits:

Annual required contribution	\$ 15,818
Interest on net OPEB obligation	1,562
Adjustment to annual required contribution	<u>(1,361)</u>
Annual OPEB cost	16,019
Contributions made	<u>(83,734)</u>
Decrease in net OPEB obligation	(67,715)
Net OPEB obligation, beginning of year	<u>(31,232)</u>
Net OPEB asset, end of fiscal year	<u>\$ 36,483</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the OPEB obligation for 2011 and 2010 were as follows:

For Year Ended <u>June 30</u>	Annual <u>OPEB Cost</u>	Percentage of Annual <u>OPEB Cost Contributed</u>	Net OPEB <u>Asset (Obligation)</u>
2011	\$ 16,023	522%	\$ 36,483
2010	32,910	5%	(31,228)

Funded Status and Funding Progress – As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. (\$81,264 was placed in a designated bank account for the HCB plan.) The actuarial accrued liability for benefits was \$178,002, resulting in an unfunded actuarial accrued liability (UAAL) of \$126,975. The covered payroll (annual payroll of active employees covered by the plan) was \$3,732,626, and the ratio of the UAAL to the covered payroll was 3.4 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and including types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer’s own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.5 to 5 percent annually. Both rates included a 3 percent inflation assumption. The actuarial value of assets, if any, was determined using

techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, was 30 years.

Note 7 – Deferred/Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Grant – Public Safety (General Fund)	\$ -	\$ 3,036
Taxes receivable (General Fund), less penalties	33,000	-
Total	<u>\$ 33,000</u>	<u>\$ 3,036</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 counsel 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 City Finance Officer, the City Clerk and the 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

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 4.60% per annum.

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% per annum.

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 semi-annual payments of \$47,393 including interest at 3.55% per annum.

In August 2009, the City entered into an installment purchase contract for \$150,000 to finance the installation of directional signs in the City. The financing agreement requires semi-annual payments of \$9,088 plus interest at 3.75% per annum beginning February 24, 2010 through August 24, 2019.

In November 2009 the City entered into an installment purchase contract for \$790,000 to finance a 2009 Seagrave Optimum Tanker and a 2009 Seagrave Marauder II Pumper. The financing agreement requires semi-annual payments of \$39,500 plus interest at 4.25% per annum beginning May 1, 2010 through November 1, 2019. (This note is collateralized by the above assets with a net book value of \$764,261 as of June 30, 2011.)

The future minimum payments of the installment purchases as of June 30, 2011 are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 223,728	\$ 66,698	\$ 290,426	\$ 121,103	\$ 19,781	\$ 140,884
2013	226,906	56,834	283,740	126,377	14,507	140,884
2014	230,223	46,905	277,128	131,652	9,232	140,884
2015	233,648	36,869	270,517	136,928	3,957	140,883
2016	208,865	26,745	235,610	-	-	-
Next 5 years	516,890	36,392	553,282	-	-	-
	<u>\$1,640,260</u>	<u>\$ 270,443</u>	<u>\$ 1,910,703</u>	<u>\$ 516,060</u>	<u>\$ 47,477</u>	<u>\$ 563,535</u>

A. Bonds Payable

At June 30, 2011, there were no outstanding authorizations to issue bonds and no outstanding general obligation bonds. As of June 30, 2011, the City's legal debt margin was approximately \$76,400,000.

B. Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Governmental activities:					
Installment contracts	\$ 1,860,910	\$ -	\$ 220,650	\$ 1,640,260	\$ 223,728
Compensated absences	218,600	120,636	100,000	239,236	100,000
Net pension obligations	202,146	-	29,337	172,809	-
Other postemployment benefits	31,228	-	31,228	-	-
Governmental activities long-term liabilities	<u>\$ 2,312,884</u>	<u>\$ 120,636</u>	<u>\$ 381,215</u>	<u>\$ 2,052,305</u>	<u>\$ 323,728</u>
Business-type activities:					
Installment contracts	\$ 631,886	\$ -	\$ 115,826	\$ 516,060	\$ 121,103
Compensated absences	71,154	66,021	60,000	77,175	60,000
Business-type activity long-term liabilities	<u>\$ 703,040</u>	<u>\$ 66,021</u>	<u>\$ 175,826</u>	<u>\$ 593,235</u>	<u>\$ 181,103</u>

The following is a summary of interest expense during the year ended June 30, 2011:

	Interest Expense
General fund	\$ 76,207
Water and sewer fund	22,609

Compensated absences for governmental activities typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned.

Note 10 – Interfund Balances and Activity

A. Balances Due to/from Other Funds

The composition of interfund balances as of June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Pedestrian/Bikeway Fund	\$ 59,377
General Fund	Bracken Mountain Trail Capital Project Fund	4,916
General Fund	Broad River CDBG Capital Project Fund	9,931
Water and Sewer Fund	General Fund	<u>55,375</u>
Total due to/from other funds		<u>\$ 129,599</u>

B. Transfers to/from Other Funds

Transfers to/from other funds for the year ending June 30, 2011, consist of the following:

From the Bjerg Fund to the General Fund for community upkeep center	500
From the Fire District Fund to the General Fund for use in installment loan payment for fire trucks	251,450
From the Heart of Brevard Fund to the Downtown Master Plan for use in a capital project	11,000
From the General Fund to the Downtown Master Plan for use in a capital project	50,000
From the General Fund to the Bracken Mountain Trail for use in a capital project	35,387
From the General Fund to the Hap Simpson Stream Bank Restoration for use in a capital project	50,000
From the Water and Sewer Fund to the General Fund (capital reserve fund) for future capital projects and health care cost reserve	203,000
From the General Fund (capital reserve fund) to the Water and Sewer Fund for capital outlay within the Brushy Creek Basis Capital Project Fund	35,045
From the General Fund (capital reserve fund) to the Water and Sewer Fund for capital outlay within the Water Treatment Plan Capital Project Fund	272,784

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 within 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. A one and a half percent (1.5%) collection fee for current vehicle tax collections are charged to the City by the County.

Note 13 – Related Party Transactions

The City purchased \$28,458 of goods during the year from Harris Hardware and Farm Supply, Inc., which is operated by Mayor Jimmy Harris.

Note 14 – Prior Period Adjustments

During the current year, an error was discovered in not recording prior grant revenue and grant receivables resulting in a prior period adjustment.

Grant revenue of \$235,395 associated with the Pedestrian/Bikeway Capital Project Fund was not recognized as grant revenue earned during the year ended June 30, 2010. Grant revenue of \$138,325 associated with the Gallimore Road Sewer Force Main Project within the Water and Sewer Fund was not recognized as grant revenue earned for the year ended June 30, 2010. Grant revenue of \$22,540 associated with the 2008 Inflow and Infiltration Study Project within the Water and Sewer Fund was not recognized as grant revenue earned for the year ended June 30, 2010.

The prior period balances have been restated for comparative purposes.

Note 15 – Subsequent Events

In August 2011, the City entered into a contract with Carolina Specialties Construction for the belt press and grit removal replacement project at the Wastewater Treatment Plan. The contract amount for approximately \$720,000 is expected to commence on or before January 2, 2012.

In addition, the City entered into a loan agreement with the NCDENR Construction Grants and Loan Section in the amount of \$1,150,000 to be used towards this project.

In September 2011, the City entered into a contract for approximately \$50,000 for the Hap Simpson Stabilization Project with J.D. Galloway Grading and Excavation.

In October 2011, the City entered into a contract for approximately \$282,000 for the Brushy Creek Basis Capital Project with Gosnell Construction and a contract for approximately \$60,000 for the Downtown Master Plan with Cole Jenest and Stone.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

CITY OF BREVARD, NORTH CAROLINA

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
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%
12/31/09	-	591,256	591,256	0%	970,393	60.93%
12/31/10	-	507,692	507,692	0%	1,055,661	48.09%

CITY OF BREVARD, NORTH CAROLINA

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

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2009	\$ 54,726	126.2%
2010	47,097	166.3%
2011	51,689	156.8%

Notes to the Required Schedules:

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

Valuation date	December 31, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 years
Asset valuation period	Market value

Actuarial assumptions:

Investment rate of return	5.00%
Projected salary increases	4.5% to 7.85%
Includes inflation at	3.00%
Cost of living adjustments	N/A

CITY OF BREVARD, NORTH CAROLINA

OTHER POSTEMPLOYMENT BENEFITS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
		Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)			
12/31/09	\$ -	\$ 201,789	\$ 201,789	0%	\$ 3,720,810	5.4%
12/31/10	51,027	178,002	126,975	28.7%	3,732,626	3.4%

CITY OF BREVARD, NORTH CAROLINA

**OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2010	\$ 32,910	5%
2011	\$ 16,023	522%

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, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation period	Market Value of Assets

Actuarial assumptions:

Investment rate of return*	5.00%
Medical cost trend rate	10.50% - 5.00%
*Includes inflation rate at	3.00%
Cost of living adjustments	None

**INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

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, 2011

With comparative actual amounts for the year ended June 30, 2010

	2011			2010
	Final Budget	Actual	Variance Positive (Negative)	Actual
Revenues				
Ad Valorem Taxes:				
Current year	\$ 4,006,364	\$ 4,082,722	\$ 76,358	\$ 3,759,978
Prior years	24,000	7,315	(16,685)	15,694
Penalties and interest	14,000	16,918	2,918	16,342
Refunds paid on ad valorem tax	(2,500)	(684)	1,816	(828)
	<u>4,041,864</u>	<u>4,106,271</u>	<u>64,407</u>	<u>3,791,186</u>
Other Taxes and Licenses:				
Local option sales tax	995,000	1,066,053	71,053	975,236
Privilege licenses	20,000	22,374	2,374	22,442
Zoning administration	18,000	19,718	1,718	22,402
	<u>1,033,000</u>	<u>1,108,145</u>	<u>75,145</u>	<u>1,020,080</u>
Unrestricted Intergovernmental Revenues:				
Other	5,000	5,000	-	5,000
Franchise tax	340,000	372,156	32,156	378,821
Beer and wine taxes	30,000	31,508	1,508	10,226
Utilities franchise tax - CATV	45,000	50,212	5,212	50,960
City narcotics investigation	59,900	59,355	(545)	89,808
City of Brevard ABC Board	180,000	136,219	(43,781)	169,437
	<u>659,900</u>	<u>654,450</u>	<u>(5,450)</u>	<u>704,252</u>
Restricted Intergovernmental Revenues:				
State street aid allocation	190,000	201,240	11,240	200,919
Court facilities fees	5,000	4,245	(755)	4,490
Grant from insurance carrier	1,000	1,250	250	3,250
P.O. GEBG grant	-	6,907	6,907	1,150
	<u>196,000</u>	<u>213,642</u>	<u>17,642</u>	<u>209,809</u>

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 For the year ended June 30, 2011
 With comparative actual amounts for the year ended June 30, 2010

	2011		Variance Positive (Negative)	2010
	Final Budget	Actual		Actual
Sales and Services:				
Water and sewer fund	490,000	490,000	-	490,000
Recycling revenue	41,500	53,076	11,576	48,157
Rents	24,600	24,754	154	26,650
Parking violation penalties	6,000	3,200	(2,800)	3,762
Parking fees	-	-	-	1,500
Recreation revenues	15,000	20,092	5,092	20,272
Refuse collection fees	602,000	587,886	(14,114)	532,306
Vehicle maintenance	377,650	409,940	32,290	352,907
Other	-	-	-	572
	<u>1,556,750</u>	<u>1,588,948</u>	<u>32,198</u>	<u>1,476,126</u>
Investment earnings	20,100	9,253	(10,847)	13,138
Miscellaneous:				
Other	2,000	10,430	8,430	4,919
	<u>7,509,614</u>	<u>7,691,139</u>	<u>181,525</u>	<u>7,219,510</u>
Expenditures				
General Government:				
Governing Body:				
Salaries and employee benefits		35,292		34,943
Other operating expenses		18,627		22,336
	<u>60,869</u>	<u>53,919</u>	<u>6,950</u>	<u>57,279</u>
Administration:				
Salaries and employee benefits		189,106		165,781
Other operating expenses		37,403		57,540
Capital outlay		2,353		3,108
	<u>265,512</u>	<u>228,862</u>	<u>36,650</u>	<u>226,429</u>
City Clerk:				
Salaries and employee benefits		68,031		66,249
Other operating expenses		21,263		46,834
Capital outlay		2,749		-
	<u>125,009</u>	<u>92,043</u>	<u>32,966</u>	<u>113,083</u>
Finance:				
Salaries and employee benefits		230,307		216,589
Other operating expenses		169,421		185,959
Capital outlay		26,971		-
	<u>441,439</u>	<u>426,699</u>	<u>14,740</u>	<u>402,548</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, 2011
 With comparative actual amounts for the year ended June 30, 2010

	2011		Variance	2010
	Final Budget	Actual	Positive (Negative)	Actual
General Government (continued):				
Tax Collector:				
Other operating expenses	130,000	125,497	4,503	113,696
Legal:				
Other operating expenses	91,000	84,305	6,695	102,944
Planning:				
Salaries and employee benefits		285,973		283,868
Other operating expenses		106,674		92,666
	<u>565,170</u>	<u>392,647</u>	<u>172,523</u>	<u>376,534</u>
Special Appropriations:				
Arts Council		5,000		-
Chamber of Commerce		2,500		2,500
Heart of Brevard		16,500		15,000
	<u>25,000</u>	<u>24,000</u>	<u>1,000</u>	<u>17,500</u>
Personnel:				
Salaries and employee benefits		90,616		77,324
Other operating expenses		53,298		51,426
	<u>152,163</u>	<u>143,914</u>	<u>8,249</u>	<u>128,750</u>
Elections:				
Other operating expenses	50	-	50	15,746
Total General Government	<u>1,856,212</u>	<u>1,571,886</u>	<u>284,326</u>	<u>1,554,509</u>
Public Safety:				
Police:				
Salaries and employee benefits		1,934,761		1,757,362
Other operating expenses		414,372		422,917
Capital outlay		68,218		21,182
	<u>2,595,925</u>	<u>2,417,351</u>	<u>178,574</u>	<u>2,201,461</u>
Fire:				
Salaries and employee benefits		190,096		174,120
Other operating expenses		127,911		172,676
Capital outlay		-		790,000
	<u>326,887</u>	<u>318,007</u>	<u>8,880</u>	<u>1,136,796</u>
Total public safety	<u>2,922,812</u>	<u>2,735,358</u>	<u>187,454</u>	<u>3,338,257</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, 2011
 With comparative actual amounts for the year ended June 30, 2010

	2011		Variance	2010
	Final Budget	Actual	Positive (Negative)	Actual
Public Works:				
Administration:				
Salaries and employee benefits		156,275		156,266
Other operating expenses		67,897		63,641
	<u>236,492</u>	<u>224,172</u>	<u>12,320</u>	<u>219,907</u>
Central Maintenance:				
Salaries and employee benefits		141,803		137,492
Other operating expenses		390,695		318,396
	<u>548,462</u>	<u>532,498</u>	<u>15,964</u>	<u>455,888</u>
Streets:				
Salaries and employee benefits		139,528		114,734
Other operating expenses		193,245		171,657
Capital outlay		52,598		-
	<u>393,946</u>	<u>385,371</u>	<u>8,575</u>	<u>286,391</u>
Powell Aid:				
Salaries and employee benefits		243,762		218,988
Other operating expenses		126,867		149,108
	<u>463,799</u>	<u>370,629</u>	<u>93,170</u>	<u>368,096</u>
Building and Grounds:				
Salaries and employee benefits		254,134		243,726
Other operating expenses		125,799		138,408
	<u>442,342</u>	<u>387,428</u>	<u>54,914</u>	<u>382,134</u>
Sanitation:				
Salaries and employee benefits		244,342		275,657
Other operating expenses		404,975		381,258
Capital outlay		122,195		-
	<u>821,816</u>	<u>771,512</u>	<u>50,304</u>	<u>656,915</u>
Total public works	<u>2,906,857</u>	<u>2,671,610</u>	<u>235,247</u>	<u>2,369,331</u>
Cultural and Recreation:				
Recreation Department:				
Salaries and employee benefits		37,681		25,826
Other operating expenses		45,805		41,760
	<u>83,770</u>	<u>83,486</u>	<u>284</u>	<u>67,586</u>
Total recreation	<u>83,770</u>	<u>83,486</u>	<u>284</u>	<u>67,586</u>

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 For the year ended June 30, 2011
 With comparative actual amounts for the year ended June 30, 2010

	2011		Variance Positive (Negative)	2010
	Final Budget	Actual		Actual
Debt service:				
Principal retirement		220,650		172,129
Interest		76,207		64,741
	<u>287,413</u>	<u>296,857</u>	<u>(9,444)</u>	<u>236,870</u>
OPEB expense	<u>17,500</u>	<u>17,500</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>8,074,564</u>	<u>7,376,697</u>	<u>697,867</u>	<u>7,566,553</u>
Revenue over (under) expenditures	<u>(564,950)</u>	<u>314,442</u>	<u>879,392</u>	<u>(347,043)</u>
Other Financing Sources (Uses):				
Operating transfers from other funds:				
Bjerg Fund	500	500	-	500
Fire District Fund	251,450	251,450	-	231,900
Capital Reserve Fund	233,000	532,074	299,074	-
Water and Sewer	-	78,000	78,000	-
Operating transfers to other funds:				
Capital Reserve Fund	(5,000)	(5,000)	-	(195,250)
Bracken Mountain Capital Project	(23,000)	(35,387)	(12,387)	-
Hap Simpson Capital Project	(50,000)	(50,000)	-	-
Downtown Master Plan Fund	(50,000)	(50,000)	-	-
Proceeds from sale of capital assets	-	493	493	29,978
Proceeds from installment financing	-	-	-	790,000
Fund balance appropriated	<u>208,000</u>	<u>-</u>	<u>(208,000)</u>	<u>-</u>
	<u>564,950</u>	<u>722,130</u>	<u>157,180</u>	<u>857,128</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>1,036,572</u>	<u>\$ 1,036,572</u>	<u>510,085</u>
Fund balance, beginning of year		<u>3,457,142</u>		<u>2,947,057</u>
Fund balance, end of year		<u>\$ 4,493,714</u>		<u>\$ 3,457,142</u>

CITY OF BREVARD, NORTH CAROLINA

CAPITAL RESERVE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE-BUDGET AND ACTUAL
 For the year ended June 30, 2011

With comparative actual amounts for the year ended June 30, 2010

	2011			2010
	Final Budget	Actual	Variance Positive (Negative)	Actual
Revenues:				
Impact fees - water and sewer	\$ 7,500	\$ 79,375	\$ 71,875	\$ 36,000
Fees in lieu of infrastructure	-	-	-	32,029
Investment earnings	5,000	4,753	(247)	6,387
CWMTF watershed easement	-	900	900	-
Donations	-	1,200	1,200	2,300
Total revenues	<u>12,500</u>	<u>86,228</u>	<u>73,728</u>	<u>76,716</u>
Expenditures:				
OPEB Expense	51,014	51,014	-	-
Revenues over (under) expenditures	<u>(38,514)</u>	<u>35,214</u>	<u>73,728</u>	<u>76,716</u>
Other Financing Sources (Uses):				
Operating transfers from (to):				
Water and Sewer Fund	-	125,000	125,000	195,250
Water and Sewer Fund - Capital Projects	(313,486)	(307,829)	5,657	(164,756)
General Fund	(530,000)	(527,074)	2,926	184,240
Fund balance appropriated	<u>882,000</u>	<u>-</u>	<u>(882,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>38,514</u>	<u>(709,903)</u>	<u>(748,417)</u>	<u>214,734</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>(674,689)</u>	<u>\$ (674,689)</u>	291,450
Fund balance, beginning of year		<u>2,772,641</u>		2,481,191
Fund balance, end of year		<u>\$ 2,097,952</u>		<u>\$ 2,772,641</u>
Fund balance committed for:				
Streets and sidewalks		\$ 143,931		
Water and Sewer capital projects		906,408		
Clean water projects and recreation		647,613		
Fund balance restricted for:				
Clean water projects		<u>400,000</u>		
		<u>\$ 2,097,952</u>		

CITY OF BREVARD, NORTH CAROLINA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue		Capital Projects	
	Special Fire District Fund	Heart of Brevard Municipal Service District Fund	Pedestrian Bikeway Project Fund	Wayfinding Project Fund
Assets				
Cash and cash equivalents, restricted	\$ 116,105	\$ 1,750	\$ 46,329	\$ 127,252
Accounts receivable, net	11,467	5,918	-	-
Due from other governments	-	-	43,630	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 127,572	\$ 7,668	\$ 89,959	\$ 127,252
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Fund Balances				
Liabilities:				
Due to other funds	\$ -	\$ -	\$ 59,377	\$ -
Accounts payable	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	59,377	-
Fund balances:				
Nonspendable	-	-	-	-
Restricted for:				
Stabilization by State statute	11,467	7,668	-	-
Public safety	116,105	-	-	-
Capital projects	-	-	30,582	127,252
Assigned	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	127,572	7,668	30,582	127,252
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 127,572	\$ 7,668	\$ 89,959	\$ 127,252
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Downtown Master Plan	Capital Projects			Broad River CDBG	Permanent	Total Non-major Governmental Funds
	Bracken Mountain Trail	Hap Simpson Stream Bank Restoration	Non-expend Bjerg Trust Fund			
\$ 65,105	\$ 23,015	\$ 44,908	\$ -	\$ 59,811	\$ 484,275	
2,750	-	-	-	-	20,135	
-	-	-	24,944	-	68,574	
<u>\$ 67,855</u>	<u>\$ 23,015</u>	<u>\$ 44,908</u>	<u>\$ 24,944</u>	<u>\$ 59,811</u>	<u>\$ 572,984</u>	
\$ -	\$ 4,916	\$ -	\$ 9,931	\$ -	\$ 74,224	
-	-	-	15,013	-	15,013	
-	4,916	-	24,944	-	89,237	
-	-	-	-	54,440	54,440	
2,750	-	-	-	-	21,885	
-	-	-	-	-	116,105	
65,105	18,099	44,908	-	-	285,946	
-	-	-	-	5,371	5,371	
<u>67,855</u>	<u>18,099</u>	<u>44,908</u>	<u>-</u>	<u>59,811</u>	<u>483,747</u>	
<u>\$ 67,855</u>	<u>\$ 23,015</u>	<u>\$ 44,908</u>	<u>\$ 24,944</u>	<u>\$ 59,811</u>	<u>\$ 572,984</u>	

CITY OF BREVARD, NORTH CAROLINA

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	Special Revenue		Capital Projects	
	Special Fire District Fund	Heart of Brevard Municipal Service District Fund	Pedestrian Bikeway Project Fund	Wayfinding Project Fund
Revenues:				
Ad valorem taxes	\$ 234,800	\$ 128,601	\$ -	\$ -
Investment earnings	583	43	283	393
Federal and State grant	-	-	82,551	-
Total revenues	<u>235,383</u>	<u>128,644</u>	<u>82,834</u>	<u>393</u>
Expenditures:				
Economic and physical development	-	109,976	368,833	38,602
Total expenditures	<u>-</u>	<u>109,976</u>	<u>368,833</u>	<u>38,602</u>
Revenues over (under) expenditures	<u>235,383</u>	<u>18,668</u>	<u>(285,999)</u>	<u>(38,209)</u>
Other Financing Sources (Uses)				
Transfers in:				
General Fund	-	-	-	-
Heart of Brevard Municipal Service	-	-	-	-
Transfers out:				
General Fund	(251,450)	-	-	-
Downtown Master Plan	-	(11,000)	-	-
Total other financing sources	<u>-</u>	<u>(11,000)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(251,450)</u>	<u>(11,000)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(16,067)	7,668	(285,999)	(38,209)
Fund balances, beginning	<u>143,639</u>	<u>-</u>	<u>316,581</u>	<u>165,461</u>
Fund balances, ending	<u><u>\$ 127,572</u></u>	<u><u>\$ 7,668</u></u>	<u><u>\$ 30,582</u></u>	<u><u>\$ 127,252</u></u>

Downtown Master Plan	Capital Projects			Permanent	Total Non-major Governmental Funds
	Bracken Mountain Trail	Hap Simpson Stream Bank Restoration	Broad River CDBG	Non-expend Bjerg Trust Fund	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 363,401
34	148	166	-	395	2,045
-	-	-	242,944	-	325,495
<u>34</u>	<u>148</u>	<u>166</u>	<u>242,944</u>	<u>395</u>	<u>690,941</u>
-	17,436	5,258	242,944	-	783,049
-	17,436	5,258	242,944	-	783,049
34	(17,288)	(5,092)	-	395	(92,503)
50,000	35,387	50,000	-	-	135,387
11,000	-	-	-	-	11,000
-	-	-	-	(500)	(251,950)
-	-	-	-	-	(11,000)
<u>61,000</u>	<u>35,387</u>	<u>50,000</u>	<u>-</u>	<u>(500)</u>	<u>(116,563)</u>
61,034	18,099	44,908	-	(105)	(208,671)
6,821	-	-	-	59,916	692,418
<u>\$ 67,855</u>	<u>\$ 18,099</u>	<u>\$ 44,908</u>	<u>\$ -</u>	<u>\$ 59,811</u>	<u>\$ 483,747</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, 2011
 With comparative actual amounts for the year ended June 30, 2010

	2011		Variance Positive (Negative)	2010
	Final Budget	Actual		Actual
Revenues:				
Ad valorem taxes	\$ 251,100	\$ 234,800	\$ (16,300)	\$ 223,650
Investment earnings	350	583	233	467
Miscellaneous	-	-	-	1,000
Total revenues	<u>251,450</u>	<u>235,383</u>	<u>(16,067)</u>	<u>225,117</u>
Expenditures:				
Miscellaneous	-	-	-	1,311
Revenues over expenditures	<u>251,450</u>	<u>235,383</u>	<u>(16,067)</u>	<u>223,806</u>
Other Financing Uses:				
Operating transfer to other funds:				
General fund (for Fire Department expenditures)	(251,450)	(251,450)	-	(231,900)
Proceeds from sale of capital asset	-	-	-	27,750
Total other financing uses	<u>(251,450)</u>	<u>(251,450)</u>	<u>-</u>	<u>(204,150)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>(16,067)</u>	<u>\$ (16,067)</u>	19,656
Fund balance, beginning of year		<u>143,639</u>		<u>123,983</u>
Fund balance, end of year		<u>\$ 127,572</u>		<u>\$ 143,639</u>

CITY OF BREVARD, NORTH CAROLINA

SPECIAL MUNICIPAL SERVICE DISTRICT FUND
HEART OF BREVARD
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

For the year ended June 30, 2011

With comparative actual amounts for the year ended June 30, 2010

	2011		Variance	2010
	Final Budget	Actual	Positive (Negative)	Actual
Revenues:				
Ad valorem taxes	\$ 122,950	\$ 128,601	\$ 5,651	\$ 109,695
Investment earnings	50	43	(7)	65
Total revenues	123,000	128,644	5,644	109,760
Expenditures:				
Current:				
Contracted services	112,000	109,976	2,024	109,782
Revenues over (under) expenditures	11,000	18,668	7,668	(22)
Other Financing Uses:				
Operating transfer to other funds:				
Downtown Master Plan Fund	(11,000)	(11,000)	-	-
Revenues and other sources over (under) expenditures and other uses	-	7,668	\$ 7,668	(22)
Fund balance, beginning of year		-		22
Fund balance, end of year		\$ 7,668		\$ -

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, 2011

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:				
S.R.T.S. grant	\$ 250,000	\$ 245,060	\$ (5,266)	\$ 239,794
S.R.T.S. grant #2	30,000	-	30,000	30,000
N.C. recreation trails grants	71,967	-	57,817	57,817
Investment earnings	-	3,227	283	3,510
Total revenues	351,967	248,287	82,834	331,121
Expenditures:				
Engineering, design and construction -				
Davidson River trail	93,467	68,965	13,158	82,123
Gallimore Road multi-use	813,100	417,341	355,675	773,016
Total expenditures	906,567	486,306	368,833	855,139
Revenues under expenditures	(554,600)	(238,019)	(285,999)	(524,018)
Other Financing Sources:				
Transfers from Capital Reserve Fund	157,600	157,600	-	157,600
Transfers from General Fund - Phase III	397,000	397,000	-	397,000
Total other financing sources	554,600	554,600	-	554,600
Revenues and other financing sources over (under) expenditures	\$ -	\$ 316,581	(285,999)	\$ 30,582
Fund balance, beginning of year (restated)			316,581	
Fund balance, end of year			\$ 30,582	

CITY OF BREVARD, NORTH CAROLINA

WAYFINDING PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 From inception and for the year ended June 30, 2011

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:				
TDA grant	\$ 8,500	\$ 8,500	\$ -	\$ 8,500
Interest	-	675	393	1,068
Miscellaneous	15,500	15,500	-	15,500
Total revenues	<u>24,000</u>	<u>24,675</u>	<u>393</u>	<u>25,068</u>
Expenditures:				
Design, fabrication, and install	174,000	9,214	38,602	47,816
Revenues over (under) expenditures	<u>(150,000)</u>	<u>15,461</u>	<u>(38,209)</u>	<u>(22,748)</u>
Other Financing Sources:				
Proceeds from debt	150,000	150,000	-	150,000
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 165,461</u>	<u>(38,209)</u>	<u>\$ 127,252</u>
Fund balance, beginning of year			<u>165,461</u>	
Fund balance, end of year			<u>\$ 127,252</u>	

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, 2011

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Investment earnings	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34</u>	<u>\$ 34</u>
Expenditures:				
Construction	<u>61,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>(61,000)</u>	<u>-</u>	<u>34</u>	<u>34</u>
Other Financing Sources:				
Operating transfer from other funds:				
Heart of Brevard Municipal Service	11,000	-	11,000	11,000
Capital Reserve fund	<u>50,000</u>	<u>6,821</u>	<u>50,000</u>	<u>56,821</u>
Total other financing sources	<u>61,000</u>	<u>6,821</u>	<u>61,000</u>	<u>67,821</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 6,821</u>	61,034	<u>\$ 67,855</u>
Fund balance, beginning of year			<u>6,821</u>	
Fund balance, end of year			<u>\$ 67,855</u>	

CITY OF BREVARD, NORTH CAROLINA

BRACKEN MOUNTAIN TRAIL CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 From inception and for the year ended June 30, 2011

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ -	\$ 148	\$ 148
North Carolina DNER grant	5,000	-	-	-
Total revenues	<u>5,000</u>	<u>-</u>	<u>148</u>	<u>148</u>
Expenditures:				
Construction	<u>28,000</u>	<u>-</u>	<u>17,436</u>	<u>17,436</u>
Revenues under expenditures	<u>(23,000)</u>	<u>-</u>	<u>(17,288)</u>	<u>(17,288)</u>
Other Financing Sources:				
Operating transfer from other funds:				
General fund	23,000	-	23,000	23,000
Capital Reserve fund	<u>-</u>	<u>-</u>	<u>12,387</u>	<u>12,387</u>
Total other financing sources	<u>23,000</u>	<u>-</u>	<u>35,387</u>	<u>35,387</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>18,099</u>	<u>\$ 18,099</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ 18,099</u>	

CITY OF BREVARD, NORTH CAROLINA

HAP SIMPSON STREAM BANK RESTORATION CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 From inception and for the year ended June 30, 2011

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ -	\$ 166	\$ 166
North Carolina DNER grant	22,500	-	-	-
Total revenues	22,500	-	166	166
Expenditures:				
Construction	72,500	-	5,258	5,258
Revenues under expenditures	(50,000)	-	(5,092)	(5,092)
Other Financing Sources:				
Operating transfer from other funds:				
General fund	50,000	-	50,000	50,000
Total other financing sources	50,000	-	50,000	50,000
Revenues and other sources over expenditures	\$ -	\$ -	44,908	\$ 44,908
Fund balance, beginning of year			-	
Fund balance, end of year			\$ 44,908	

CITY OF BREVARD, NORTH CAROLINA

**BROAD RIVER CDBG CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
From inception and for the year ended June 30, 2011**

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
Revenues:				
CDBG grant	\$ 250,000	\$ -	\$ 242,944	\$ 242,944
Total revenues	<u>250,000</u>	<u>-</u>	<u>242,944</u>	<u>242,944</u>
Expenditures:				
Construction	250,000	-	242,944	242,944
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

WATER AND SEWER FUND
STATEMENT OF NET ASSETS
June 30, 2011 and 2010

	2011	(Restated) 2010
	<u>2011</u>	<u>2010</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,440,933	\$ 1,248,100
Accounts receivable (net)	315,484	301,248
Due from other governments	67,397	215,329
Due from other funds	55,375	36,005
Prepaid expenses	70,442	15,129
Total current assets	<u>1,949,631</u>	<u>1,815,811</u>
Capital assets (net)	<u>12,457,898</u>	12,141,446
Total assets	<u>14,407,529</u>	<u>13,957,257</u>
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	196,558	136,467
Customer deposits	150,948	148,486
Accrued interest	10,551	13,000
Compensated absences - current	60,000	10,000
Installment contracts - current	121,103	115,826
Total current liabilities	<u>539,160</u>	<u>423,779</u>
Noncurrent liabilities:		
Compensated absences	17,175	71,155
Installment contracts - noncurrent (net)	394,957	516,059
Total noncurrent liabilities	<u>412,132</u>	<u>587,214</u>
Total liabilities	<u>951,292</u>	<u>1,010,993</u>
Net Assets		
Invested in capital assets, net of related debt	11,941,838	11,509,561
Unrestricted	1,514,399	1,436,703
Total net assets	<u>\$ 13,456,237</u>	<u>\$ 12,946,264</u>

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

For the year ended June 30, 2011

With comparative actual amounts for the year ended June 30, 2010

	2011		Variance Positive (Negative)	(Restated) 2010
	Final Budget	Actual		Actual
Revenues:				
Operating Revenues:				
Charges for utilities:				
Water	\$ 1,965,415	\$ 1,823,123	\$ (142,292)	\$ 1,975,259
Sewer	1,665,000	1,632,699	(32,301)	1,642,712
Taps and connection fees:				
Water	10,000	68,520	58,520	11,140
Sewer	5,000	62,165	57,165	2,000
Other operating revenues	80,000	69,048	(10,952)	75,030
Total operating revenues	<u>3,725,415</u>	<u>3,655,555</u>	<u>(69,860)</u>	<u>3,706,141</u>
Nonoperating Revenues:				
Interest on investments	<u>7,500</u>	<u>964</u>	<u>(6,536)</u>	<u>5,396</u>
Total nonoperating revenues	<u>7,500</u>	<u>964</u>	<u>(6,536)</u>	<u>5,396</u>
Total revenues	<u>3,732,915</u>	<u>3,656,519</u>	<u>(76,396)</u>	<u>3,711,537</u>
Expenditures:				
Water Service:				
Water Treatment:				
Salaries and employee benefits		294,392		330,516
Other operating expenses		323,831		267,749
Capital outlay		-		18,730
	<u>699,823</u>	<u>618,223</u>	<u>81,600</u>	<u>616,995</u>
Water Distribution:				
Salaries and employee benefits		191,855		201,678
Other operating expenses		190,461		217,211
Capital outlay		32,292		238,024
	<u>495,322</u>	<u>414,608</u>	<u>80,714</u>	<u>656,913</u>
Total water service	<u>1,195,145</u>	<u>1,032,831</u>	<u>162,314</u>	<u>1,273,908</u>

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

For the year ended June 30, 2011

With comparative actual amounts for the year ended June 30, 2010

	2011		(Restated)
	Final Budget	Actual	2010 Actual
			Variance Positive (Negative)
Expenditures (continued):			
Sewer Service:			
Sewage Treatment:			
Salaries and employee benefits		430,724	345,099
Other operating expenses		475,317	403,575
Capital outlay		73,500	21,184
	993,450	979,541	13,909
Sewer Maintenance:			
Salaries and employee benefits		313,904	311,452
Other operating expenses		372,556	273,185
Capital outlay		67,300	4,687
	887,079	753,760	133,319
Total sewer service	1,880,529	1,733,301	147,228
Debt Service:			
Interest and fees		25,458	30,334
Debt principal		115,826	110,550
Total debt service	141,000	141,284	(284)
Nondepartmental:			
Payment to general fund in lieu of taxes and administrative expenses	490,000	490,000	-
Adminstration	96,491	20,129	76,362
Bracken Creek watershed	50,000	-	50,000
OPEB expense	12,750	12,750	-
Miscellaneous	7,000	8,600	(1,600)
	656,241	531,479	124,762
Total expenditures	3,872,915	3,438,895	434,020
Revenues over expenditures	(140,000)	217,624	357,624
Other financing sources (uses):			
Transfer to Capital Reserve Fund	-	(125,000)	(125,000)
Transfer to General Fund	-	(78,000)	(78,000)
Transfer from Capital Reserve Fund	140,000	-	(140,000)
Total other financing sources (uses)	140,000	(203,000)	(343,000)
Revenues and other sources over expenditures and other uses	\$ -	\$ 14,624	\$ 14,624
	\$ -	\$ 14,624	\$ 257,575

CITY OF BREVARD, NORTH CAROLINA

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

For the year ended June 30, 2011

With comparative actual amounts for the year ended June 30, 2010

	<u>2011</u>	<u>(Restated) 2010</u>
Reconciliation of Budgetary Basis to Full Accrual Basis:		
Revenues over expenditures	\$ 14,624	\$ 257,575
Reconciling items:		
Payment of debt principal	115,826	110,550
Change in accrued interest payable	2,849	
Capital contributions in Water Infrastructure		
South Broad Storm Water Capital Project Fund	11,682	-
Transfers from Capital Reserve Fund for use		
in Brushy Creek Basin Capital Project Fund	35,045	147,965
Transfers from Capital Reserve Fund for use		
Water Treatment Plan Capital Project Fund	272,784	16,791
Capital contributions in Water Infrastructure		
Capital Project Fund - State Grant (Rural Center)	264,955	215,329
Capital contributions to Water Infrastructure		
Water and Sewer Fund	-	193,334
Capital outlay	173,092	81,905
Depreciation	<u>(380,884)</u>	<u>(544,554)</u>
Change in Net Assets	<u>\$ 509,973</u>	<u>\$ 478,895</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, 2011

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Engineering, design and construction	390,000	413,565	-	413,565
Revenues over (under) expenditures	(390,000)	(413,565)	-	(413,565)
Other Financing Sources:				
Transfers from Capital Reserve Fund	390,000	413,565	-	413,565
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>-</u>	-	<u>\$ -</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ -</u>	

CITY OF BREVARD, NORTH CAROLINA

WATER TREATMENT PLANT CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 From inception and for the year ended June 30, 2011

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:				
NC Rural Center Grant	\$ 496,650	\$ -	\$ -	\$ -
Expenditures:				
Engineering, design and construction	993,300	16,791	269,204	285,995
Revenues under expenditures	(496,650)	(16,791)	(269,204)	(285,995)
Other Financing Sources:				
Transfers from Capital Reserve Fund	496,650	16,791	272,784	289,575
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>-</u>	3,580	<u>\$ 3,580</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ 3,580</u>	

CITY OF BREVARD, NORTH CAROLINA

WATER INFRASTRUCTURE CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 From inception and for the year ended June 30, 2011

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:				
NC Rural Center Grant	\$ 386,666	\$ 54,464	\$ 264,955	\$ 319,419
Expenditures:				
Engineering, design and construction	580,000	247,798	264,955	512,753
Revenues under expenditures	(193,334)	(193,334)	-	(193,334)
Other Financing Sources:				
Transfers from Water and Sewer Fund	193,334	193,334	-	193,334
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>-</u>	-	<u>\$ -</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ -</u>	

CITY OF BREVARD, NORTH CAROLINA

SOUTH BROAD STORM WATER CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 From inception and for the year ended June 30, 2011

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:				
Local contribution	\$ 11,682	\$ -	11,682	\$ 11,682
Expenditures:				
Easement acquisition	4,000	-	2,290	2,290
Engineering, design and construction	69,468	-	25,301	25,301
	<u>73,468</u>	<u>-</u>	<u>27,591</u>	<u>27,591</u>
Revenues under expenditures	(61,786)	-	(15,909)	(15,909)
Other Financing Sources:				
Transfers from Water and Sewer Fund	-	-	15,909	15,909
Transfers from Capital Reserve Fund	61,786	-	-	-
	<u>61,786</u>	<u>-</u>	<u>15,909</u>	<u>15,909</u>
Revenues and other financing sources 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

WATER STORAGE TANKS CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 From inception and for the year ended June 30, 2011

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Engineering, design and construction	120,900	-	7,292	7,292
Revenues over under expenditures	(120,900)	-	(7,292)	(7,292)
Other Financing Sources:				
Transfers from Water and Sewer Fund	120,900	-	7,292	7,292
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ -</u>	

CITY OF BREVARD, NORTH CAROLINA

**KINGS CREEK SEWER CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

From inception and for the year ended June 30, 2011

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Engineering, design and construction	88,000	-	18,000	18,000
Revenues under expenditures	(88,000)	-	(18,000)	(18,000)
Other Financing Sources:				
Transfers from Water and Sewer Fund	88,000	-	18,000	18,000
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ -</u>	

CITY OF BREVARD, NORTH CAROLINA

BRUSHY CREEK BASIN SEWER INFRASTRUCTURE CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 From inception and for the year ended June 30, 2011

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
NC Rural Center Grant	\$ 394,072	\$ -	\$ -	\$ -
Expenditures:				
Engineering, design and construction	591,110	-	35,045	35,045
Revenues under expenditures	(197,038)	-	(35,045)	(35,045)
Other Financing Sources:				
Transfers from Capital Reserve Fund	197,038	-	35,045	35,045
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u><u>\$ -</u></u>	

SUPPLEMENTAL FINANCIAL DATA

CITY OF BREVARD, NORTH CAROLINA

GENERAL FUND
 SCHEDULE OF AD VALOREM TAXES RECEIVABLE
 June 30, 2011

Fiscal Year	Uncollected Balance June 30, 2010	Additions	Collections And Credits	Uncollected Balance June 30, 2011
2010-2011	\$ -	\$ 4,134,251	\$ 4,111,472	\$ 22,779
2009-2010	10,405	-	8,223	2,182
2008-2009	3,308	-	1,053	2,255
2007-2008	2,659	-	263	2,396
2006-2007	2,423	-	124	2,299
2005-2006	2,915	-	494	2,421
2004-2005	2,410	-	134	2,276
2003-2004	2,989	-	58	2,931
2002-2003	5,882	-	322	5,560
2001-2002	3,491	-	1,699	1,792
2000-Prior	2,498	-	2,498	-
	\$ 38,980	\$ 4,134,251	\$ 4,126,339	46,892
				(13,892)
				33,000
				32,010
				\$ 65,010
 <u>Reconcilement with revenues:</u>				
				\$ 4,106,271
				Reconciling items:
				Interest collected (16,918)
				Taxes written off per statute of limitations 2,498
				Releases and other 34,488
				Subtotal 20,068
				\$ 4,126,339

CITY OF BREVARD, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY
For the Year Ended June 30, 2011

	City - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 942,449,331	0.4325	\$ 4,050,284	\$ 3,891,281	\$ 159,003
Penalties	-		2,067	2,067	-
Total	<u>942,449,331</u>		<u>4,052,351</u>	<u>3,893,348</u>	<u>159,003</u>
Discoveries	20,879,004		90,722	90,710	12
Abatements	<u>(8,282,896)</u>		<u>(8,822)</u>	<u>(4,926)</u>	<u>(3,896)</u>
Total property valuation	<u>\$ 955,045,439</u>				
Net levy			4,134,251	3,979,132	155,119
Uncollected taxes at June 30, 2011			<u>(22,779)</u>	<u>(13,644)</u>	<u>(9,135)</u>
Current year's taxes collected and credits			<u>\$ 4,111,472</u>	<u>\$ 3,965,488</u>	<u>\$ 145,984</u>
Current levy collection percentage			<u>99.45%</u>	<u>99.66%</u>	<u>94.11%</u>

COMPLIANCE SECTION

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

Members of the City Council
City of Brevard, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2011, which collectively comprises the City of Brevard's basic financial statements, and have issued our report thereon dated December 5, 2011. 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

Management of the City of Brevard is responsible for establishing and maintaining effective 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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (items 11-1 and 11-2).

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency (item 11-3).

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 (item 11 – 3).

The City's responses 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 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 5, 2011

CITY OF BREVARD, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011**

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

11 – 1 Aggregate Material Adjusting Journal Entries

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

Condition: There were significant material adjustments made as part of the audit procedures. These adjustments, if not recorded, would have caused the financial statements to be materially misstated. The primary adjustments were related to recording receivables, payables, transfers, grant revenue and expenditure recognition and making corrections from the previous year audit adjustments. In addition, a prior period restatement was made to recognize grant revenue in the previous year for the Pedestrian Bikeway Capital Project Fund and the Gallimore Road Sewer Force Main Project.

Cause: The City did not post all necessary year end journal entries, transactions recognizing the grant revenue appropriately, and transactions involving various capital projects funds.

Recommendation: The closing process should include adjustment of general ledger balances to period ending amounts per supporting data so financial reporting is in accordance with general accepted accounting principles.

11 – 2 Financial Statement Preparation

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

Condition: The City does not have the expertise to prepare the financial statements, footnotes, and other required disclosures. The City relies on the external auditor for this function.

CITY OF BREVARD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

Recommendation: The City should assess the feasibility of hiring a person with the required knowledge and time to prepare the financial statements.

11 – 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 was in excess of the amounts appropriated in the budget ordinance and project ordinances, respectively:

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Debt service			
Principal and interest	\$ 287,413	\$ 296,857	\$ (9,444)
General Fund:			
Other financing sources (uses):			
Transfer to Other Funds	\$ (128,000)	\$ (140,387)	\$ (12,387)
Water and Sewer Fund:			
Other financing sources (uses):			
Transfer to Capital Reserve Fund	\$ -	\$ (125,000)	\$ (125,000)
Transfer to General Fund	-	(78,000)	(78,000)

Cause: Management did not include all interest payments related to the debt service budget. In addition, all transfers between funds were not budgeted by Management.

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

Recommendation: Management should monitor debt service payments to ensure all amounts have been appropriately budgeted. In addition, management should monitor and ensure transfers between funds are appropriately approved and included in the City's budget process.

CITY OF BREVARD, NORTH CAROLINA

CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2011

11 – 1 Aggregate Material Adjusting Journal Entries

Name of contact person: Joe Moore, City Manager

Corrective Action: The City has hired a financial specialist to review and assess the current financial closing procedures and institute procedures to improve the reconciliation procedures and recording financial activity on a monthly and annual basis.

Proposed Completion: The City will complete the process within the fiscal year ended June 30, 2012.

11 – 2 Financial Statement Preparation

Name of contact person: Joe Moore, City Manager

Corrective Action: After the financial specialist completes their review and assessment the current financial close procedures and when these new procedures are instituted, the City will assess the feasibility of hiring an individual that possesses the skill and knowledge to prepare the annual financial statements.

Proposed Completion: The City will complete the process within the fiscal year ended June 30, 2012.

11 – 3 Excess of Expenditures Over Appropriations

Name of contact person: Joe Moore, City Manager

Corrective Action: The City has hired a financial specialist to review and assess the current financial close procedures and institute procedures to improve the budget review process on a monthly and annual basis. In addition, the financial specialist will review the budget process to ensure all appropriate expenditures including transfers are appropriately being budgeted.

Proposed Completion: The City will complete the process within the fiscal year ended June 30, 2012.

CITY OF BREVARD, NORTH CAROLINA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the Year Ended June 30, 2011

Finding 10 – 1

Status: The City has taken steps to post necessary journal entries. It still did not post all necessary material adjustments. Refer to finding 11 – 1.

Finding 10 – 2

Status: The City still engages external auditors to prepare the annual financial statements, footnotes, and other required disclosures. It is still the position of the auditor that it is not feasible for the City to dedicate the resources required to perform all of the year-end financial reporting duties. Refer to finding 11 – 2.

Finding 10 – 3

Status: The City has current errors in budgeting process. The City has exceeded budget authorizations in current fiscal year due to a budget calculation error and not budgeting for three specific transfers between funds. Refer to finding 11 – 3.