

City of Brevard, North Carolina

Financial Statements

Year Ended June 30, 2016



CITY OF BREVARD, NORTH CAROLINA



City Council As of June 30, 2016

Jimmy Harris (Mayor)
Mac Morrow (Mayor Pro Tem)
Gary Daniel
Ann Hollingsworth
Maurice Jones
Charlie Landreth

City Staff

James R. Fatland, CPFO, NCCLGFO	City Manager and Finance Director
Desiree D. Perry, CMC, NCCMC	City Clerk
Michael K. Pratt	City Attorney

CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Financial Section:		
Independent Auditors' Report	1 – 3	
Management's Discussion and Analysis	4 – 13	
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	14	1
Statement of Activities	15 – 16	2
Fund Financial Statements:		
Balance Sheet – Governmental Funds	17	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18	3
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	19	4
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20	5
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	21	6
Statement of Net Position – Proprietary Funds	22	7
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	23	8
Statement of Cash Flows – Proprietary Funds	24	9
Statement of Fiduciary Net Position	25	10
Statement of Changes in Fiduciary Net Position	26	11
Notes to the Financial Statements	27 – 55	
Required Supplemental Financial Data:		
Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress	56	

CONTENTS (continued)

	<u>Page</u>
Other Postemployment Benefits – Schedule of Funding Progress and Schedule of Employer Contributions	57
Local Government Employees’ Retirement System – Schedule of the Proportionate Share of the Net Pension Liability (Asset)	58
Local Government Employees’ Retirement System – Schedule of City’s Contributions	59
Firefighters’ and Rescue Squad Workers’ Pension – Schedule of the City’s Proportionate Share of the Net Pension Liability	60
 Combining and Individual Fund Statements and Schedules:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	61 – 63
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Reserve Fund	64
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Pedestrian/Bikeway Capital Project Fund	65
 Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	66 – 67
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	68 – 69
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	
Special Fire District Fund	70
Special Municipal Service District Fund - Heart of Brevard	71
Emergency Telephone System Fund	72
Wayfinding Project Fund	73
Downtown Master Plan Capital Project Fund	74
Bracken Mountain Trail Capital Project Fund	75
Rosenwald Revitalization Capital Project Fund	76
Housing Trust Capital Project Fund	77
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP)	
Water and Sewer Fund	78 – 79

CONTENTS (continued)

	<u>Page</u>
Water and Sewer Capital Project Fund	80
Schedule of Revenues and Expenditures – Financial Plan and Actual (Non-GAAP)	
Insurance Internal Service Fund	81
Supplemental Financial Data:	
Schedule of Ad Valorem Taxes Receivable – General Fund	82
Analysis of Current Tax Levy – City-Wide Levy	83
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 <i>Government Auditing Standards</i>	84 – 85
Report On Compliance With Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance With OMB Uniform Guidance and the State Single Audit Implementation Act	86 – 87
Schedule of Findings and Responses	88 – 90
Summary Schedule of Prior Year Audit Findings	91
Schedule of Expenditures of Federal and State Awards	92



**GOULD KILLIAN
CPA GROUP, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Brevard ABC Board, which represents 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report has 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 report 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 financial statements are free of material misstatement. The financial statements of the City of Brevard ABC Board were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 June 30, 2016, and the respective changes in financial position and cash flows, where appropriate, thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13, the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and the Other Postemployment Benefits Schedules of Funding Progress and Employer Contributions on pages 56 and 57, respectively, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 58 and 59, respectively, and the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Brevard, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance

with auditing standards generally accepted in the United States of America. In our opinion, based on our audit the procedures performed as described above, the combining and individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2017 on our consideration of the City of Brevard's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Brevard's internal control over financial reporting and compliance.

David Killian CPA Group, P.A.

Asheville, North Carolina
January 6, 2017

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, 2016. 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.

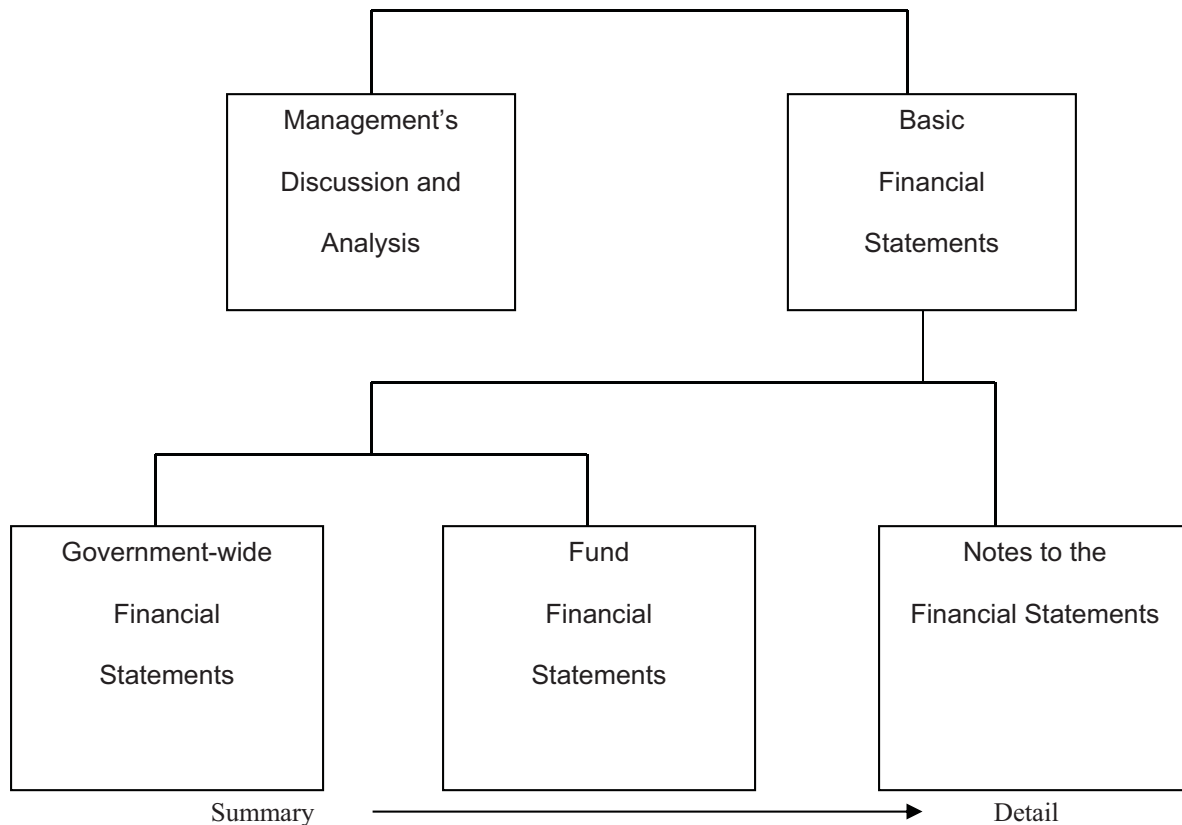
Financial Highlights

- The assets and deferred outflows of the City of Brevard exceeded its liabilities and deferred inflows at the close of the fiscal year by \$26,607,557 (net position).
- The City's total net position increased by \$151,252 primarily due to diligent management of the budget.
- As of the close of the current fiscal year, the City of Brevard's governmental funds reported combined ending fund balances of \$5,878,305, a decrease of \$1,206,698 in comparison with the prior year. Approximately 70% of this total amount, or \$4,117,739, is nonspendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,048,713. This represents approximately 14% of total general fund expenditures for the fiscal year.
- Outstanding installment obligations decreased for Governmental Activities by \$307,716 due to repayment of principal on existing loans.
- Outstanding installment and revolving loan debt in the Water and Sewer Fund increased by \$4,175,779 primarily due to advanced funding recorded on federal revolving loans obtained to finance various large water and sewer improvement/rehabilitation projects.

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 11) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements, 3) the proprietary fund statements and 4) the fiduciary 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 position and how they have changed. Net position is the difference between the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position 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 three categories: governmental funds, proprietary funds, and fiduciary 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 Position 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 two kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations. This fund is the same as that function shown in the business-type activities in the Statement of Net Position and the

Management's Discussion and Analysis
City of Brevard

Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of the City. The City uses an internal service fund to account for its self-insured employee health insurance program. Because this operation benefits predominantly governmental rather than business-type activities, the internal service fund has been included with the governmental activities in the government-wide financial statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City of Brevard has two fiduciary funds: the OPEB reserve fund, which holds accumulates and holds assets to pay current and future costs associated with retiree health care benefits; and the T.L. Scruggs Scholarship fund, which accumulates donations and awards scholarships in honor of former City employee T.L. Scruggs.

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 27 through 55 of this report.

**The City of Brevard's Net position
Figure 2**

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2016	2015	2016	2015	2016	2015	
Current and other assets	\$ 6,446,808	\$ 8,224,225	\$ 2,225,165	\$ 2,536,208	\$ 8,671,973	\$ 10,760,433	-19%
Capital assets	6,550,421	5,734,731	23,740,448	18,912,239	30,290,869	24,646,970	23%
Deferred outflows of resources	263,724	242,784	77,519	72,520	341,243	315,304	8%
Total assets and deferred outflows of resources	13,260,953	14,201,740	26,043,132	21,520,967	39,304,085	35,722,707	10%
Long-term liabilities	1,533,290	1,549,954	9,558,322	5,297,451	11,091,612	6,847,405	62%
Other liabilities	341,789	507,222	1,082,652	871,416	1,424,441	1,378,638	3%
Deferred inflows of resources	139,477	801,077	40,998	239,282	180,475	1,040,359	-83%
Total liabilities and deferred inflows of resources	2,014,556	2,858,253	10,681,972	6,408,149	12,696,528	9,266,402	37%
Net position:							
Net investment in capital assets	5,592,942	4,469,536	14,339,131	13,686,701	19,932,073	18,156,237	10%
Restricted	4,011,441	2,710,158	-	-	4,011,441	2,710,158	48%
Unrestricted	1,642,014	4,163,793	1,022,029	1,426,117	2,664,043	5,589,910	-52%
Total net position	\$ 11,246,397	\$ 11,343,487	\$ 15,361,160	\$ 15,112,818	\$ 26,607,557	\$ 26,456,305	1%

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the City of Brevard exceeded liabilities by \$26,607,557 as of June 30, 2016. The City's net position increased by \$151,252 for the fiscal year ended June 30, 2016. The largest portion (75%) of net position reflects the City's 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 position (15%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,664,043 (10%) is unrestricted.

Management's Discussion and Analysis
City of Brevard

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.93% for the year ending June 30, 2016, which is comparable to 99.88% for the year ending June 30, 2015. Property tax revenues increased slightly over the prior year as a result of continued economic improvements leading to growth in the tax base.
- Local option sales tax revenues increased approximately \$48,500 or 3.6%, mainly due to growth in local retail sales as a result of continued economic improvements.
- Total expenses increased by approximately \$371,216 or 2.9%. This was primarily due to careful management of the budget.

City of Brevard Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2016	2015	2016	2015	2016	2015	
Revenues							
Program revenues:							
Charges for services	\$ 1,271,168	\$ 1,904,545	\$ 4,567,603	\$ 4,156,043	\$ 5,838,771	\$ 6,060,588	-4%
Operating grants and contributions	342,242	340,189	-	-	342,242	340,189	1%
Capital grants and contributions	266,357	151,500	-	-	266,357	151,500	76%
General revenues:							
Property taxes	5,046,808	4,825,006	-	-	5,046,808	4,825,006	5%
Sales taxes	1,395,935	1,347,461	-	-	1,395,935	1,347,461	4%
Other	610,684	978,312	-	-	610,684	978,312	-38%
Total revenues	8,933,194	9,547,013	4,567,603	4,156,043	13,500,797	13,703,056	-1%
Expenses							
General government	1,829,619	2,220,685	-	-	1,829,619	2,220,685	-18%
Public safety	3,319,061	3,197,206	-	-	3,319,061	3,197,206	4%
Public works	3,215,833	2,904,043	-	-	3,215,833	2,904,043	11%
Economic and physical development	122,409	539,397	-	-	122,409	539,397	-77%
Culture and recreation	123,002	97,658	-	-	123,002	97,658	26%
Interest on long-term debt	26,360	33,038	-	-	26,360	33,038	-20%
Water and sewer	-	-	4,713,261	3,986,302	4,713,261	3,986,302	18%
Total expenses	8,636,284	8,992,027	4,713,261	3,986,302	13,349,545	12,978,329	3%
Transfers	(394,000)	-	394,000	-	-	-	
Increase (decrease) in net position	(97,090)	554,986	248,342	169,741	151,252	724,727	-79%
Net position, beginning	11,343,487	10,788,501	15,112,818	14,943,077	26,456,305	25,731,578	
Net position, ending	\$ 11,246,397	\$ 11,343,487	\$ 15,361,160	\$ 15,112,818	\$ 26,607,557	\$ 26,456,305	

Governmental activities. The City's net position decreased due to governmental activities by \$97,090.

Business-type activities: Business-type activities increased the City of Brevard's net position by \$248,342. This differs from the prior year's increase of \$169,741 mainly due to revenue increases generated by reducing the minimum gallon threshold from 1,500 to 1,000 for water billing.

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.

The General Fund is the chief operating fund of the City of Brevard. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,048,713, while total fund balance reached \$5,192,625. City Council has determined that the City should maintain available fund balance of 30% of general fund budgeted expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the City. The City currently has an available fund balance of 22% of general fund budgeted expenditures, and total fund balance represents 57% of the same amount. The City's available fund balance has temporarily fallen below the 30% threshold due to required self funding of the design stages of several water and sewer improvement projects pending approval of the projects by the appropriate Federal and State agencies and reimbursement from Federal revolving funds.

At June 30, 2016, the governmental funds of City of Brevard reported a combined fund balance of \$5,878,305 with a net decrease of \$1,206,698. \$619,917 of this decrease is attributable directly to the General Fund while the remaining \$586,781 is attributable to the special revenue and capital project funds.

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 position of the Water and Sewer District at the end of the fiscal year amounted to \$1,022,029. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Brevard's business-type activities.

Budgetary Highlights. For the year ended June 30, 2016, the City of Brevard revised the overall budget several times. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

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, 2016, totals \$30,290,869 (net of accumulated depreciation). These assets include land, construction in progress, buildings, infrastructure, equipment and vehicles.

Capital Asset Additions. Assets purchased included: several vehicles and miscellaneous pieces of equipment, water & sewer plant rehab and 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 to upgrade existing water and sewer facilities.

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

Figure 4

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2016	2015	2016	2015	2016	2015	
Land	\$ 319,893	\$ 319,893	\$ 212,891	\$ 212,891	\$ 532,784	\$ 532,784	0%
Construction in progress	1,689,147	1,024,514	4,007,676	3,421,616	5,696,823	4,446,130	28%
Buildings and infrastructure	3,139,118	2,698,153	19,111,743	14,867,891	22,250,861	17,566,044	27%
Equipment	133,574	130,540	186,766	128,869	320,340	259,409	23%
Vehicles and motorized equipment	1,268,689	1,561,631	221,372	280,972	1,490,061	1,842,603	-19%
Total capital assets	\$ 6,550,421	\$ 5,734,731	\$ 23,740,448	\$ 18,912,239	\$ 30,290,869	\$ 24,646,970	23%

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

Long-term Debt. As of June 30, 2016, the City of Brevard had no outstanding bonds. Debt decreased for Governmental Activities by \$307,716 due to repayment of principal of existing loans. For Business-Type Activities, debt increased by a net amount of \$4,175,779 mainly due to new borrowing for capital improvements for various water and sewer construction and rehabilitation projects.

City of Brevard's Outstanding Debt

Figure 5

	Balance			Balance June 30, 2016
	June 30, 2015	Additions	Retirements	
Governmental Activities				
Installment contracts	\$ 1,265,195	\$ -	\$ 307,716	\$ 957,479
Total	\$ 1,265,195	\$ -	\$ 307,716	\$ 957,479
Business-Type Activities				
Installment contracts	\$ 380,148	\$ -	\$ 73,794	\$ 306,354
Revolving loans	4,845,390	4,505,184	255,611	9,094,963
Total	\$ 5,225,538	\$ 4,505,184	\$ 329,405	\$ 9,401,317

The City of Brevard continues to strive to strengthen its financial position by maintaining a strong fund balance, reducing debt, and conservatively managing its 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 approximately \$68 million. The City has no bonds authorized or un-issued at June 30, 2016.

Additional information regarding the City of Brevard's long-term debt can be found in Note 7 beginning on page 49 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>Labor Force</u>	<u>June 2016 Unemployment Rates</u>	
		<u>Number Unemployed</u>	<u>Unemployment Rate</u>
Transylvania	14,169	638	4.5%
Buncombe	134,926	4,900	3.6%
Henderson	52,212	2,102	4.0%
North Carolina	4,897,108	237,804	4.9%

Source: NC Employment Security Commission – June 2016 Not Seasonally Adjusted

- Tourism remains a vital and growing part of the Brevard economy. Domestic tourism in Transylvania County generated an economic impact of \$88.86 million for the calendar year 2015. This was a \$2.45 million increase from 2014.

Transylvania County

Year	Tourism Revenue (\$ millions)	% Growth (Decline)
2011	77.32	7%
2012	80.92	5%
2013	84.26	4%
2014	86.41	3%
2015	88.86	3%

*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.

	2011	2012	2013	2014	2015
City of Brevard	99.70%	99.60%	99.81%	99.88%	99.93%
Statewide	97.58%	97.46%	97.50%	98.34%	N/A

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

- Within the City, sales tax generated from taxable sales increased 3.6% from \$1,347,461 in the fiscal year 2014-2015 to \$1,395,935 in the fiscal year 2015-2016.

Budget Highlights for the Fiscal Year Ending June 30, 2017

General Fund

- The general fund budget as adopted for fiscal year 2016-2017 increased from \$8,713,550 to \$9,374,097.

Water and Sewer Fund

- Management expects water usage in fiscal year 2016-2017 to remain consistent with fiscal year 2015-2016 or slightly increase. The charges for services were budgeted at approximately the same level with a fee schedule adjustment.
- The City of Brevard has in place a 20 year Capital Improvement Plan for the Utility Fund which describes in detail the revenue increases necessary to fund the renovation of aging plants and replacement of deteriorating water/sewer lines. The city further reduced the minimum bill threshold from 1,000 to 500 gallons effective July 1, 2016 to be used mainly for future capital improvements and servicing of new debt related to those improvements.

Other Information:

The following statistics were provided by the Transylvania County Building Permitting and Enforcement Department for the calendar year ending December 31, 2015:

Detailed Residential Construction Value 2015

New home value: City - 15 homes - \$3,924,000
New home value: County - 67 homes - \$27,993,000

Addition/Remodel Value: City - 68 homes - \$2,822,000
Addition/Remodel Value: County - 197 homes - \$11,279,000

Manufactured Homes: City - 2 homes - \$63,000
Manufactured Homes: County - 26 homes - \$1,099,000

Detailed Commercial Construction Value 2015

New: City - 8 - \$11,629,000
New: County - 4 - \$473,000

Addition/Remodel: City - 41 - \$5,537,000
Addition/Remodel: County - 14 - \$531,000

The number of new house permits in 2015 compared to 2014 was up 26%.
The number of new house permits in 2015 compared to 2011 was up 32%.
Total construction value in 2015 compared to 2011 was up 50%.

Construction Values for last 5 years in the City of Brevard

2015 - \$ 23,975,307
2014 - \$ 9,523,643
2013 - \$ 10,608,122
2012 - \$ 9,555,894
2011 - \$ 6,420,475

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 Finance Director as follows:

James Fatland, CPFO, NCCLGFO, City Manager and Finance Director
City of Brevard
95 W. Main Street
Brevard, N. C. 28712
828-885-5600
828-883-2853 - Fax
jim.fatland@cityofbrevard.com
www.cityofbrevard.com

CITY OF BREVARD, NORTH CAROLINA

Statement of Net Position
June 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	City of Brevard ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,129,712	\$ -	\$ 2,129,712	\$ 281,658
Taxes receivable (net)	14,685	-	14,685	-
Accrued interest receivable on taxes	4,000	-	4,000	-
Accounts receivable (net)	100,573	440,568	541,141	-
Due from other governments	984,545	3,282,429	4,266,974	-
Due from fiduciary fund	315	-	315	-
Internal balances	1,589,276	(1,589,276)	-	-
Inventories	50,858	-	50,858	340,687
Prepaid items	28,006	12,189	40,195	3,285
Restricted cash and cash equivalents	1,544,838	79,255	1,624,093	-
Total current assets	<u>6,446,808</u>	<u>2,225,165</u>	<u>8,671,973</u>	<u>625,630</u>
Non-current assets:				
Capital assets:				
Land, non-depreciable improvements & construction in progress	2,009,040	4,220,567	6,229,607	-
Other capital assets, net of depreciation	4,541,381	19,519,881	24,061,262	102,039
Total capital assets	<u>6,550,421</u>	<u>23,740,448</u>	<u>30,290,869</u>	<u>102,039</u>
Total assets	<u>12,997,229</u>	<u>25,965,613</u>	<u>38,962,842</u>	<u>727,669</u>
DEFERRED OUTFLOWS OF RESOURCES				
Contributions to pension plan in current fiscal year	263,724	77,519	341,243	12,549
LIABILITIES				
Current liabilities:				
Accounts payable	238,937	972,878	1,211,815	417,494
Salaries and payroll taxes payable	99,452	14,419	113,871	-
Customer deposits	-	79,255	79,255	-
Accrued interest payable	3,400	16,100	19,500	-
Long-term liabilities:				
Net pension liability	268,353	78,879	347,232	11,848
Due within one year	422,662	523,588	946,250	-
Due in more than one year	842,275	8,955,855	9,798,130	-
Total liabilities	<u>1,875,079</u>	<u>10,640,974</u>	<u>12,516,053</u>	<u>429,342</u>
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	139,477	40,998	180,475	12,717
NET POSITION				
Net investment in capital assets	5,592,942	14,339,131	19,932,073	102,039
Restricted for:				
Stabilization by State statute	3,298,896	-	3,298,896	-
Streets	143,407	-	143,407	-
Capital projects	376,951	-	376,951	-
Public safety	187,484	-	187,484	94,997
Perpetual maintenance	4,703	-	4,703	-
Unrestricted	1,642,014	1,022,029	2,664,043	101,123
Total net position	<u>\$ 11,246,397</u>	<u>\$ 15,361,160</u>	<u>\$ 26,607,557</u>	<u>\$ 298,159</u>

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

CITY OF BREVARD, NORTH CAROLINA

Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit City of Brevard ABC Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 1,829,619	\$ -	\$ -	\$ -	\$ (1,829,619)	\$ -	\$ (1,829,619)	\$ -
Public safety	3,319,061	1,695	116,418	-	(3,200,948)	-	(3,200,948)	-
Public works	3,215,833	1,225,546	225,824	-	(1,764,463)	-	(1,764,463)	-
Economic and physical development	122,409	-	-	266,357	143,948	-	143,948	-
Cultural and recreation	123,002	43,927	-	-	(79,075)	-	(79,075)	-
Interest on long-term debt	26,360	-	-	-	(26,360)	-	(26,360)	-
Total Governmental Activities	8,636,284	1,271,168	342,242	266,357	(6,756,517)	-	(6,756,517)	-
Business-Type Activities:								
Water and sewer	4,713,261	4,567,603	-	-	-	(145,658)	(145,658)	-
Total Business-Type Activities	4,713,261	4,567,603	-	-	-	(145,658)	(145,658)	-
Total Primary Government	\$ 13,349,545	\$ 5,838,771	\$ 342,242	\$ 266,357	(6,756,517)	(145,658)	(6,902,175)	-
Component Unit:								
ABC Board	\$ 3,213,352	\$ 3,213,352	\$ -	\$ -	-	-	-	-
Total Component Unit	\$ 3,213,352	\$ 3,213,352	\$ -	\$ -	-	-	-	-
General revenues:								
Taxes:								
Property taxes, levied for general purpose					5,046,808	-	5,046,808	-
Sales taxes					1,395,935	-	1,395,935	-
Other taxes					596,016	-	596,016	-
Grants and contributions not restricted to a specific program					251,844	-	251,844	-
Unrestricted investment earnings					6,862	-	6,862	198
Gain on sale of capital assets					12,224	-	12,224	-
Miscellaneous					(256,262)	-	(256,262)	20
Total general revenues before transfers					7,053,427	-	7,053,427	218
Transfers					(394,000)	394,000	-	-
Total general revenues and transfers					6,659,427	394,000	7,053,427	218
Change in net position					(97,090)	248,342	151,252	218
Net position, beginning					11,343,487	15,112,818	26,456,305	297,941
Net position, ending					\$ 11,246,397	\$ 15,361,160	\$ 26,607,557	\$ 298,159

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

CITY OF BREVARD, NORTH CAROLINA

GOVERNMENTAL FUNDS

Balance Sheet

June 30, 2016

	Major Fund		Total Non-Major Funds	Total Governmental Funds
	General Fund	Pedestrian Bikeway Capital Project Fund		
ASSETS				
Cash and cash equivalents, unrestricted	\$ 1,896,727	\$ -	\$ -	\$ 1,896,727
Cash and cash equivalents, restricted	298,462	749,966	496,410	1,544,838
Taxes receivable, net	14,685	-	-	14,685
Accounts receivable, net	68,461	-	13,392	81,853
Due from other governments	837,763	135,720	11,062	984,545
Due from other funds	2,243,560	-	-	2,243,560
Inventories	50,858	-	-	50,858
Total assets	<u>\$ 5,410,516</u>	<u>\$ 885,686</u>	<u>\$ 520,864</u>	<u>\$ 6,817,066</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 103,754	\$ 32,921	\$ 33,980	\$ 170,655
Salaries and payroll taxes payable	99,452	-	-	99,452
Due to the general fund	-	650,000	3,969	653,969
Total liabilities	<u>203,206</u>	<u>682,921</u>	<u>37,949</u>	<u>924,076</u>
DEFERRED INFLOWS OF RESOURCES				
Taxes receivable, net	14,685	-	-	14,685
FUND BALANCES				
Nonspendable:				
Inventories	50,858	-	-	50,858
Perpetual maintenance	-	-	55,440	55,440
Restricted:				
Stabilization by State statute	3,149,784	135,720	13,392	3,298,896
Streets	143,407	-	-	143,407
Capital projects	-	-	376,951	376,951
Public safety	155,055	-	32,429	187,484
Perpetual maintenance	-	-	4,703	4,703
Committed:				
Capital projects	517,308	67,045	-	584,353
Assigned:				
Subsequent year's expenditures	127,500	-	-	127,500
Unassigned	1,048,713	-	-	1,048,713
Total fund balances	<u>5,192,625</u>	<u>202,765</u>	<u>482,915</u>	<u>5,878,305</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,410,516</u>	<u>\$ 885,686</u>	<u>\$ 520,864</u>	<u>\$ 6,817,066</u>

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

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

Total fund balance, governmental funds		\$ 5,878,305
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	\$ 14,304,497	
Accumulated depreciation	<u>(7,754,076)</u>	6,550,421
Net pension liability - LGERS		(268,353)
Deferred outflows of resources related to pensions are not reported in the funds		263,724
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are inflows of resources in the funds.		4,000
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		14,685
The assets and liabilities of the internal service fund, which is used by management to charge the cost of insurance to individual funds, are included in governmental activities in the statement of net position.		183,423
Long-term liabilities used in governmental activities are not financials uses and therefore are not reported in the funds.		
Installment obligations	\$ (957,479)	
Other post-employment benefits	28,006	
Net pension obligations - LEO Separation Allowance	(44,317)	
Compensated absences	<u>(263,141)</u>	(1,236,931)
Deferred inflows of resources related to pensions are not reported in the funds		(139,477)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.		<u>(3,400)</u>
Net position of governmental activities		<u><u>\$ 11,246,397</u></u>

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

CITY OF BREVARD, NORTH CAROLINA

GOVERNMENTAL FUNDS

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2016

	<u>Major Fund</u>	<u>Major Fund</u>		<u>Total</u>
	<u>General Fund</u>	<u>Pedestrian Bikeway Capital Project Fund</u>	<u>Total Non- Major Funds</u>	<u>Governmental Funds</u>
REVENUES				
Ad valorem taxes	\$ 4,624,594	\$ -	\$ 431,109	\$ 5,055,703
Other taxes and licenses	1,432,087	-	-	1,432,087
Unrestricted intergovernmental	811,708	-	-	811,708
Restricted intergovernmental	277,675	135,720	195,204	608,599
Sales and services	1,271,168	-	-	1,271,168
Investment earnings	6,735	-	127	6,862
Miscellaneous	5,622	-	(261,884)	(256,262)
Total revenues	<u>8,429,589</u>	<u>135,720</u>	<u>364,556</u>	<u>8,929,865</u>
EXPENDITURES				
Current:				
General government	1,718,033	-	-	1,718,033
Public safety	2,547,985	-	507,626	3,055,611
Public works	3,048,340	-	-	3,048,340
Economic and physical development	-	-	122,409	122,409
Cultural and recreation	81,764	-	-	81,764
Capital outlay	-	400,886	815,568	1,216,454
Debt service:				
Principal retirement	116,175	-	191,541	307,716
Interest and other charges	8,609	-	19,351	27,960
Total expenditures	<u>7,520,906</u>	<u>400,886</u>	<u>1,656,495</u>	<u>9,578,287</u>
Revenues over (under) expenditures	<u>908,683</u>	<u>(265,166)</u>	<u>(1,291,939)</u>	<u>(648,422)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	13,027	258,196	712,128	983,351
Transfers to other funds	(1,553,851)	-	-	(1,553,851)
Proceeds from sale of capital assets	12,224	-	-	12,224
Total other financing sources (uses)	<u>(1,528,600)</u>	<u>258,196</u>	<u>712,128</u>	<u>(558,276)</u>
Net change in fund balance	(619,917)	(6,970)	(579,811)	(1,206,698)
Fund balances, beginning	<u>5,812,542</u>	<u>209,735</u>	<u>1,062,726</u>	<u>7,085,003</u>
Fund balances, ending	<u>\$ 5,192,625</u>	<u>\$ 202,765</u>	<u>\$ 482,915</u>	<u>\$ 5,878,305</u>

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

CITY OF BREVARD, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

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

Net changes in fund balances - total governmental funds \$ (1,206,698)

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.

Capital outlay expenditures which were capitalized	\$ 1,345,703	
Depreciation expense for governmental assets	<u>(530,013)</u>	815,690

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		228,927
--	--	---------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable tax revenues		(8,895)
------------------------------------	--	---------

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.

Compensated absences accrued	(22,485)	
Pension expense - LGERS	(156,410)	
Net pension obligation - LEO Separation Allowance	(214)	
Other postemployment benefits	<u>(6,712)</u>	(185,821)

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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long-term debt	307,716	
Accrued interest expense	<u>1,600</u>	309,316

The internal service fund is used by management to charge the cost of health insurance to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

		<u>(49,609)</u>
Total changes in net position of governmental activities		<u>\$ (97,090)</u>

CITY OF BREVARD, NORTH CAROLINA

GENERAL FUND

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 4,513,700	\$ 4,568,500	\$ 4,624,594	\$ 56,094
Other taxes and licenses	1,325,000	1,383,000	1,432,087	49,087
Unrestricted intergovernmental	520,000	765,604	811,708	46,104
Restricted intergovernmental	222,000	283,033	277,675	(5,358)
Sales and services	1,308,650	1,378,150	1,216,489	(161,661)
Investment earnings	5,100	5,100	6,679	1,579
Miscellaneous	113,900	8,400	5,622	(2,778)
Total revenues	<u>8,008,350</u>	<u>8,391,787</u>	<u>8,374,854</u>	<u>(16,933)</u>
Expenditures:				
Current:				
General government	1,664,198	2,055,802	1,706,033	349,769
Public safety	2,538,171	2,595,380	2,547,985	47,395
Public works	3,046,137	3,129,461	3,048,340	81,121
Cultural and recreation	98,316	97,544	81,764	15,780
Debt service:				
Principal retirement	110,470	110,470	116,175	(5,705)
Interest and other charges	15,100	15,100	8,609	6,491
OPEB expense:	12,000	12,000	12,000	-
Total expenditures	<u>7,484,392</u>	<u>8,015,757</u>	<u>7,520,906</u>	<u>494,851</u>
Revenues over expenditures	<u>523,958</u>	<u>376,030</u>	<u>853,948</u>	<u>477,918</u>
Other financing sources (uses):				
Transfers from other funds	100	100	7,702	7,602
Transfers to other funds	(609,058)	(1,273,526)	(928,851)	344,675
Proceeds from sale of capital assets	-	12,396	12,224	(172)
Total other financing sources (uses)	<u>(608,958)</u>	<u>(1,261,030)</u>	<u>(908,925)</u>	<u>352,105</u>
Fund balance appropriated	<u>85,000</u>	<u>885,000</u>	<u>-</u>	<u>(885,000)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>(54,977)</u>	<u>\$ (54,977)</u>
Fund balance, beginning			<u>4,730,294</u>	
Fund balance, ending			4,675,317	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			56	
Impact fees and donations			54,679	
Transfers from other funds			5,325	
Transfers to other funds			(625,000)	
Fund balance, beginning (Capital Reserve Fund)			<u>1,082,248</u>	
Fund balance, ending (Exhibit 4)			<u>\$ 5,192,625</u>	

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

CITY OF BREVARD, NORTH CAROLINA

 PROPRIETARY FUNDS
 Statement of Fund Net Position
 June 30, 2016

	<u>Enterprise Fund</u>	<u>Internal Service</u>
	<u>Water and Sewer</u>	<u>Fund</u>
	<u>Fund</u>	<u>Health Insurance</u>
	<u>Fund</u>	<u>Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents, unrestricted	\$ -	\$ 232,985
Cash and cash equivalents, restricted	79,255	-
Accounts receivable (net)	440,568	18,720
Due from other governments	3,282,429	-
Prepaid expenses	12,189	-
Total current assets	<u>3,814,441</u>	<u>251,705</u>
Noncurrent assets:		
Capital assets:		
Land and other non-depreciable assets	4,220,567	-
Other capital assets, net of depreciation	19,519,881	-
Capital assets (net)	<u>23,740,448</u>	<u>-</u>
Total assets	<u>27,554,889</u>	<u>251,705</u>
DEFERRED OUTFLOWS OF RESOURCES		
Contributions to pension plan	<u>77,519</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	972,878	68,282
Salaries and payroll taxes payable	14,419	-
Due to the general fund	1,589,276	-
Customer deposits	79,255	-
Accrued interest	16,100	-
Compensated absences - current	48,481	-
Installment contracts and revolving loan, current	475,107	-
Total current liabilities	<u>3,195,516</u>	<u>68,282</u>
Noncurrent liabilities:		
Net pension liability	78,879	-
Compensated absences	29,645	-
Installment contracts and revolving loan, noncurrent	8,926,210	-
Total noncurrent liabilities	<u>9,034,734</u>	<u>-</u>
Total liabilities	<u>12,230,250</u>	<u>68,282</u>
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	<u>40,998</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	14,339,131	-
Unrestricted	1,022,029	183,423
Total net position	<u>\$ 15,361,160</u>	<u>\$ 183,423</u>

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

CITY OF BREVARD, NORTH CAROLINA

PROPRIETARY FUNDS

Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2016

	<u>Enterprise Fund</u> <u>Water and Sewer</u> <u>Fund</u>	<u>Internal Service</u> <u>Fund</u> <u>Health Insurance</u> <u>Fund</u>
OPERATING REVENUES		
Charges for services	\$ 4,313,139	\$ 1,082,406
Water and sewer taps	40,200	-
Other operating revenues	214,264	-
Total operating revenues	<u>4,567,603</u>	<u>1,082,406</u>
OPERATING EXPENSES		
Water treatment and distribution	1,413,690	-
Waste collection and treatment	2,137,613	-
Payment to general fund in lieu of taxes & admin expenses	575,000	-
Depreciation	505,110	-
Claims	-	925,579
Insurance premiums	-	173,502
Other operating expenses	26,248	209,434
Total operating expenses	<u>4,657,661</u>	<u>1,308,515</u>
Operating income (loss)	<u>(90,058)</u>	<u>(226,109)</u>
NONOPERATING REVENUES (EXPENSES)		
Transfers from other funds	425,000	176,500
Transfer to other funds	(31,000)	-
Interest expense	(55,600)	-
Total nonoperating revenue (expenses)	<u>338,400</u>	<u>176,500</u>
Change in net position	248,342	(49,609)
Total net position, beginning	<u>15,112,818</u>	<u>233,032</u>
Total net position, ending	<u>\$ 15,361,160</u>	<u>\$ 183,423</u>
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.	<u>-</u>	
Change in net position - business-type activities	<u>\$ 248,342</u>	

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

CITY OF BREVARD, NORTH CAROLINA

PROPRIETARY FUNDS

Statement of Cash Flows

For the Year Ended June 30, 2016

	Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	Health Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 4,501,634	\$ 1,150,503
Cash paid for goods and services	(2,565,800)	(1,350,859)
Cash paid to or on behalf of employees for services	(1,400,923)	-
Net cash provided (used) by operating activities	<u>534,911</u>	<u>(200,356)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers (to)/from other funds, net	(31,000)	176,500
Net cash provided (used) by noncapital financing activities	<u>(31,000)</u>	<u>176,500</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(5,333,319)	-
Proceeds from issuance of debt	4,505,174	-
Transfers from other funds	425,000	-
Due to the general fund	1,589,276	-
Reimbursements due from other governments	(1,451,175)	-
Principal paid on installment obligation	(329,395)	-
Interest paid on installment obligation	(45,900)	-
Net cash used by capital and related financing activities	<u>(640,339)</u>	<u>-</u>
Net decrease in cash and cash equivalents	(136,428)	(23,856)
Cash and cash equivalents, beginning of year	215,683	256,841
Cash and cash equivalents, end of year	<u>\$ 79,255</u>	<u>\$ 232,985</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (90,058)	\$ (226,109)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	505,110	-
Changes in assets and liabilities:		
Accounts receivable	(63,722)	68,098
Prepaid expenses	(1,819)	-
Net pension asset	102,055	-
Deferred outflows of resources - pensions	(4,999)	(42,345)
Accounts payable and accrued liabilities	203,783	-
Net pension liability	78,879	-
Deferred inflows of resources - pensions	(198,284)	-
Customer deposits	(2,247)	-
Accrued vacation	6,213	-
Total adjustments	<u>624,969</u>	<u>25,753</u>
Net cash provided (used) by operating activities	<u>\$ 534,911</u>	<u>\$ (200,356)</u>

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

CITY OF BREVARD, NORTH CAROLINA

FIDUCIARY FUNDS
 Statement of Fiduciary Net Position
 June 30, 2016

	<u>OPEB Reserve Fund</u>	<u>T.L. Scruggs Scholarship Fund</u>
ASSETS		
Cash and cash equivalents, restricted	\$ 175,268	\$ 13,971
	<u> </u>	<u> </u>
LIABILITIES		
Due to general fund	\$ -	\$ 315
	<u> </u>	<u> </u>
NET POSITION		
Assets held for retiree health benefits	175,268	-
Assets held for administration of scholarship fund	-	13,656
	<u>\$ 175,268</u>	<u>\$ 13,656</u>

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

CITY OF BREVARD, NORTH CAROLINA

FIDUCIARY FUNDS

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2016

	<u>OPEB Reserve Fund</u>	<u>T.L. Scruggs Scholarship Fund</u>
ADDITIONS		
Employer contributions	\$ 18,750	\$ -
Restricted donations	-	19,938
	<u>18,750</u>	<u>19,938</u>
Investment income		
Interest	34	2
Total additions	<u>18,784</u>	<u>19,940</u>
DEDUCTIONS		
Expenditures	-	6,830
Scholarships awarded	-	11,000
	<u>18,784</u>	<u>2,110</u>
Change in net position	18,784	2,110
Net position, beginning	156,484	11,546
Net position, ending	<u>\$ 175,268</u>	<u>\$ 13,656</u>

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

CITY OF BREVARD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2016

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

City of Brevard ABC Board

The members of the ABC Board's governing board are appointed by the City. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the City (75%) and to Transylvania County (25%). The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (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 position 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 direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of 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, including its fiduciary 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. Non-operating revenues, such as subsidies, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

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, state sales taxes, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services. Additionally, the City has legally adopted a Capital Reserve Fund. Under GASB 54 guidance the Capital Reserve Fund is consolidated in the General Fund. The budgetary comparison for the Capital Reserve Fund has been included in the supplemental information.

Pedestrian Bikeway Capital Project Fund. This fund accounts for grant funds received for the development of several sidewalk and bike path projects.

The City reports the following non-major governmental funds:

Special Revenue Funds. The City has three special revenue funds. The Special Fire District Fund is used to account for the City's fire department operations. The Heart of Brevard Municipal Services District Fund accounts for the receipt of tax revenue which is legally restricted to expenditures for specific activities related to the Heart of Brevard. The Emergency Telephone System Fund accounts for funds allocated from the State 911 Board for operations of and improvements to the 911 system.

Capital Projects Funds. Capital projects funds account for the acquisition and/or construction of major capital facilities (other than those financed by proprietary fund). The City has five capital project funds: the Wayfinding Project Fund, the Downtown Master Plan Project Fund, the Bracken Mountain Trail Project Fund, the Rosenwald Revitalization Project Fund, and the Housing Trust Capital Project Fund.

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. This fund also covers acquisition and/or construction of major water and sewer capital facilities and infrastructure, which are accounted for in the Water and Sewer Capital Project Fund that is combined with the Water and Sewer Fund (the operating fund) for financial statement purposes. The non-GAAP budgetary comparison for the capital project fund has been included in the supplementary information.

The City reports the following fund types:

Internal Service Fund. The internal service fund is used to account for the accumulation and allocation of costs associated with the City's self-insured group health insurance program.

OPEB Reserve Fund. A fiduciary fund is used to account for the accumulation of funds and the payment of benefit costs related to retiree health benefits.

T.L. Scruggs Scholarship Fund. A fiduciary fund is used to account for the collection of donations and the payment of scholarships in memory of former City employee T.L. Scruggs.

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 an 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 non-operating 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 the enterprise fund 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 non-operating 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 for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, 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, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes, and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Sales taxes are considered a shared revenue for the City of Brevard because the tax is levied by Transylvania County and then remitted to and distributed by the State. Most intergovernmental revenues and

sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program 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 is both restricted and unrestricted net position 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 general revenues.

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 Emergency Telephone System Fund, the Heart of Brevard 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, the Rosenwald Revitalization Capital Project Fund, the Housing Trust Capital Project Fund, and the Water and Sewer Capital Project Fund. The Water and Sewer Capital Project fund is consolidated with the operating fund for reporting purposes. The City's Insurance Fund, an internal service fund, operates under a financial plan that was adopted by the governing board at the time the City's budget ordinance was approved, as is required by the General Statutes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the project 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. All amendments to the budget ordinance must be approved by the City Council.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, 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 ABC Board may establish time deposit 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 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 amortized cost, 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.

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. The unexpended balance of grant funds is classified as restricted assets for the general fund because their use is completely restricted to the purpose for which the grants are intended. The unexpended balance of forfeiture funds for Public Safety are classified as restricted assets for the general fund because their use is completely restricted for which the funds were intended. In addition, Powell Bill funds are also classified as restricted cash because they can be expended only for the purpose of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

City of Brevard Restricted Cash

Governmental activities:

General Fund	
Streets	\$ 143,407
Public safety	155,055
Capital projects	-
Fire district Fund	
Public safety	34,016
Pedestrian Bikeway Capital Project Fund	
Capital projects	749,966
Downtown Master Plan Capital Project Fund	
Capital projects	207,076
Rosenwald Revitalization Capital Project Fund	
Capital projects	128,382
Housing Trust Capital Project fund	
Capital projects	66,793
Bjerg Trust Fund	
Perpetual maintenance	60,143
Total governmental activities	<u>1,544,838</u>

Business-type activities:

Water and Sewer Fund	
Customer deposits	<u>79,255</u>
Total business-type activities	<u>79,255</u>

Total Restricted Cash	<u>\$ 1,624,093</u>
-----------------------	---------------------

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, 2015.

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. Outstanding balances for inactive customer accounts for trash collection service and water and sewer service were deemed by management to be written off during the current fiscal year. These amounts have been removed from the applicable gross receivable balances and therefore will not be shown as part of the allowance. The allowance shown related to these receivables only includes outstanding balances of active customers.

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. The cost of these inventories is expensed upon resale rather than when purchased.

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 received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital received after June 15, 2015 are recorded at acquisition value. All other purchased or other constructed capital assets are reported at cost or estimated historical cost. 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
Vehicles	4-10 years
Furniture and equipment	5-15 years
Computer equipment	3-5 years

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

Asset Class	Estimated Useful Lives
Buildings	15-50 years
Vehicles	4-10 years
Furniture and equipment	5-15 years
Computer equipment	3-5 years

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has one item that meets this criterion, contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has two items that meet the criterion for this category – property taxes receivable and deferrals of pension-related items that result from the implementation of GASB Statement 68.

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 position.

In fund financial statements, the face amount of debt issued is reported as other financing sources.

10. Compensated Absences

The vacation policy of the City provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. The vacation policy for the ABC Board provide up to twenty days earned vacation with no accumulation allowed. For the City's government-wide and proprietary funds, 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.

The City's sick leave policy provides 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. The ABC Board's sick leave policy provides no accumulation of sick leave. 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 Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents 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 – portion of fund balance that is not an available resource because it represents funds which are held 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 restricted by revenue source for public safety. This amount represents the balance of total unexpended drug forfeiture funds.

Restricted for streets – portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for capital projects – portion of the fund balance that is restricted by revenue source for City improvements.

Restricted for perpetual maintenance – portion of fund balance that represents investment earnings from the nonspendable Bjerg Trust Fund that is restricted for maintenance of a specific neighborhood's common property.

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.) The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Capital projects – portion of capital reserve fund committed to City improvements.

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 as 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 has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Director will use resources in the following hierarchy: bond proceeds, 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 Finance Director has the authority to deviate from this if it is in the best interest of the City.

The City of Brevard has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the City in such a manner that available fund balance is at least equal to or greater than 30% of budgeted expenditures. Any portion of the general fund balance in excess of 30% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the City in a future budget.

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City of Brevard and the ABC Board's employer contributions are recognized when due and both the City and the ABC Board have a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

13. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – 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, 2016, the City's deposits had a carrying amount of \$1,687,096 and a bank balance of \$1,836,218. Of the bank balance, \$264,265 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$281,658 and the bank balance was \$268,085. Federal depository insurance covered \$250,000 of the ABC Board's deposits, and the remainder was covered by collateral held under the pooling method.

The City also had cash on hand at June 30, 2016 in the amount of \$650.

2. Investments

At June 30, 2016, the City of Brevard had funds with a carrying amount and bank balance of \$2,255,298 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's.

Interest Rate Risk – The City has no formal investment policy regarding interest rate risk.

Credit Risk – The City has no formal policy regarding credit risk, but has internal management procedures that limits the City's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible rating whenever particular types of securities are rated.

At June 30, 2016, the ABC Board held no investments.

3. Reconciliation of Cash and Cash Equivalents

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

Reported value of deposits	\$ 1,687,096
Petty cash	650
Fair value of investments	2,255,298
	<u>\$ 3,943,044</u>
Statement of Net Position	
Cash and cash equivalents	\$ 2,129,712
Cash and cash equivalents, restricted	1,624,093
	<u>3,753,805</u>
Statement of Fiduciary Net Position	
Cash and cash equivalents, restricted	189,239
	<u>\$ 3,943,044</u>

Note 3 – Receivables – Allowance for Doubtful Accounts

The amount of taxes receivable presented in the Balance Sheet and the Statement of Net Position does not include any penalties levied or outstanding. The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2016 is net of the following allowances for doubtful accounts:

Funds

General Fund

Allowance for uncollectible property taxes receivable	\$ 11,000
Allowance for uncollectible trash services receivable	1,900

Water and Sewer Fund

Allowance for uncollectible water and sewer services receivable	\$ 10,600
---	-----------

Note 4 – Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 319,893	\$ -	\$ -	\$ 319,893
Construction in progress	1,024,514	1,216,454	551,821	1,689,147
Total capital assets not being depreciated	<u>1,344,407</u>	<u>1,216,454</u>	<u>551,821</u>	<u>2,009,040</u>
Capital assets being depreciated:				
Buildings and infrastructure	4,814,813	551,821	-	5,366,634
Equipment	1,117,372	51,868	-	1,169,240
Vehicles and motorized equipment	5,811,837	77,381	129,636	5,759,582
Total capital assets being depreciated	<u>11,744,022</u>	<u>681,070</u>	<u>129,636</u>	<u>12,295,456</u>
Less accumulated depreciation for:				
Buildings and infrastructure	2,116,660	110,856	-	2,227,516
Equipment	986,832	48,834	-	1,035,666
Vehicles and motorized equipment	4,250,206	370,323	129,636	4,490,893
Total accumulated depreciation	<u>7,353,698</u>	<u>530,013</u>	<u>129,636</u>	<u>7,754,075</u>
Total capital assets being depreciated, net	<u>4,390,324</u>			<u>4,541,381</u>
Governmental activities capital assets, net	<u>\$ 5,734,731</u>			<u>\$ 6,550,421</u>

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

General government	\$ 88,764
Public safety	303,298
Public works	96,713
Cultural and recreational	41,238
Total depreciation expense	<u>\$ 530,013</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	\$ 212,891	\$ -	\$ -	\$ 212,891
Construction in progress	3,421,616	4,976,582	4,390,522	4,007,676
Total capital assets not being depreciated	<u>3,634,507</u>	<u>4,976,582</u>	<u>4,390,522</u>	<u>4,220,567</u>
Capital assets being depreciated:				
Plant and distribution systems	23,088,501	4,651,865	-	27,740,366
Maintenance equipment and furniture	754,962	95,394	-	850,356
Vehicles	1,026,479	-	-	1,026,479
Total capital assets being depreciated	<u>24,869,942</u>	<u>4,747,259</u>	<u>-</u>	<u>29,617,201</u>
Less accumulated depreciation for:				
Plant and distribution systems	8,220,610	408,013	-	8,628,623
Maintenance equipment and furniture	626,093	37,497	-	663,590
Vehicles	745,507	59,600	-	805,107
Total accumulated depreciation	<u>9,592,210</u>	<u>505,110</u>	<u>-</u>	<u>10,097,320</u>
Total capital assets being depreciated, net	<u>15,277,732</u>			<u>19,519,881</u>
Water and sewer fund capital assets, net	<u>\$ 18,912,239</u>			<u>\$ 23,740,448</u>

Construction commitments:

The government has the following commitments with contractors for active construction projects as of June 30, 2016:

Project	Spent-to-Date	Remaining Commitment
Neely Road pump station, force main	\$ 820,535	\$ 12,141,660
Kings Creek sewer project phase II	82,671	1,322,529
Kings Creek sewer project phase III	152,619	1,280,456
Kings Creek Bridge (Railroad Ave.)	169,650	85,072
West Loop Project	126,115	42,714
Probart Street Sidewalk Project	-	622,116
Radio Read Meters	1,197,588	199,333
	<u>\$ 2,549,178</u>	<u>\$ 15,693,880</u>

Discretely presented component unit:

Activity for the ABC Board for the year ended June 30, 2016 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Leasehold improvements	\$ 118,882	\$ 1,907	\$ -	\$ 120,789
Furniture and equipment	121,549	8,450	-	129,999
Vehicle	10,995	984	-	11,979
Total capital assets being depreciated	<u>251,426</u>	<u>11,341</u>	<u>-</u>	<u>262,767</u>
Less accumulated depreciation	<u>141,491</u>	<u>19,237</u>	<u>-</u>	<u>160,728</u>
Total capital assets being depreciated, net	<u>\$ 109,935</u>			<u>\$ 102,039</u>

Note 5 – Pension Plan and Postemployment ObligationsLocal Governmental Employees' Retirement System

Plan Description. The City of Brevard is a participating employer in 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 membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. 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, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die

while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Brevard employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Brevard's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.67% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Brevard were \$296,217 for the year ended June 30, 2016.

Refunds of Contributions – City employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability of \$347,232 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the City's proportion was 0.0774%, which was a increase of 0.002% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$201,352. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 81,619
Net difference between projected and actual earnings on pension plan investments	-	98,856
Changes in proportion and differences between City contributions and proportionate share of contributions	45,026	-
City contributions subsequent to the measurement date	296,217	-
Total	<u>\$ 341,243</u>	<u>\$ 180,475</u>

\$296,217 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an decrease of the net pension

liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	(101,159)
2018	(101,159)
2019	(101,137)
2020	168,006
2021	-
Thereafter	-
	\$ (135,449)

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.5%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the City's proportionate share of the net pension liability or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
City's Proportionate share of the net Pension liability (asset)	\$ 2,421,297	\$ 347,232	\$ (1,400,122)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

Law Enforcement Officers' Special Separation Allowance

1. Plan Description

The City 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 December 31, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	4
Active plan members	<u>23</u>
Total	<u><u>27</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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

- contributions to the pension plan and earnings on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

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, 2015 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 3.57% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 3.50% 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	\$ 60,764
Interest on net pension obligation	2,205
Adjustment to annual required contribution	<u>(3,786)</u>
Annual pension cost	59,093
Contributions made	<u>(58,879)</u>
Increase in net pension obligation	214
Net pension obligation, beginning of fiscal year	<u>44,103</u>
Net pension obligation, end of fiscal year	<u><u>\$ 44,317</u></u>

For Year Ended June 30	3 Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2014	47,561	209.07%	55,634
2015	57,874	119.92%	44,103
2016	59,093	99.64%	44,317

Funding Status and Funding Progress - As of December 31, 2015 the most recent actuarial valuation date, the plan was not funded. The unfunded actuarial accrued liability is being amortized using the level dollar method on a closed basis. The remaining amortization period at December 31, 2015 was 15 years. The actuarial accrued liability (UAAL) was \$563,585. The covered payroll (annual payroll of active employees covered by the plan) was \$1,192,033, and the ratio of the UAAL to the covered payroll was 47.28%.

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 are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 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, 2016 were \$66,136 which consisted of \$56,226 from the City and \$9,910 from the law enforcement officers.

Firefighter’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 Firefighters’ and Rescue Squad Workers’ Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers who 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. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Firefighters’ 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 Firefighters’ and Rescue Squad Workers’ Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2015, the State contributed \$13,900,000 to the plan. The City of Brevard's proportionate share of the State's contribution is \$12,568.

Refunds of Contributions – Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the City through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the City and supported by the State was \$32,874. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the City is not projected to make any future contributions to the plan, its proportionate share at June 30, 2015 and at June 30, 2014 was 0%.

For the year ended June 30, 2016, the City recognized pension expense of \$12,568 and revenue of \$12,568 for support provided by the State. At June 30, 2016, the City reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Not applicable
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in the first section of this note.

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

Other Post-Employment Benefits (OPEB) – Healthcare Benefits

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 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, 2014, the date of the most recent actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	-	3
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	66	24
Total	<u>66</u>	<u>27</u>

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	\$ 579
Retiree and Children	950
Retiree and Spouse	1,158
Family	1,448

Retirees contributed \$10,759 in premiums for the year ended June 30, 2016.

The current annual required contribution rate (ARC) is .54% of annual covered payroll. The City obtains healthcare coverage through private insurers. The City’s contributions totaled \$18,750 in fiscal year 2016. 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, funds have 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	\$ 23,438
Interest on net OPEB obligation (asset)	(1,804)
Adjustment to annual required contribution	<u>2,009</u>
Annual OPEB cost	23,643
Contributions made	<u>(18,750)</u>
Decrease in net OPEB asset	4,893
Net OPEB (asset), beginning of year	<u>(45,088)</u>
Net OPEB (asset), end of fiscal year	<u>\$ (40,195)</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the OPEB (asset) obligation as of June 30, 2016 were as follows:

For Year Ended <u>June 30</u>	3 Year Trend Information		Net OPEB (Asset) Obligation
	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	
2016	23,643	79%	(40,195)
2015	\$ 22,662	69%	\$ (45,088)
2014	15,877	118%	(52,040)

Funded Status and Funding Progress – As of December 31, 2014, the most recent actuarial valuation date, the plan was 64.4% funded. The actuarial accrued liability for benefits was \$243,050 and the actuarial value of assets was \$156,468, resulting in an unfunded actuarial accrued liability (UAAL) of \$86,582. The covered payroll (annual payroll of active employees covered by the plan) was \$4,274,450, and the ratio of the UAAL to the covered payroll was 2.0 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, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% 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 7.5% to 5% annually. Both rates included a 3% 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 6 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, 2014, was 30 years.

Note 6 – Risk Management and Contingent Liabilities

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 carries liability insurance for various risks of loss through the North Carolina League of Municipalities Risk Management Services. 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.

The City of Brevard ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation and employee health coverage. The ABC Board also has liquor legal liability coverage. There have been no significant reductions in insurance coverage from the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

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/City Manager and the City Clerk are each bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$50,000. Additionally, each ABC Board Member and employees designated as the general manager and finance officer are bonded in the amount of \$50,000.

The City is presently a defendant in lawsuits and is also subject to claims which may arise out of the ordinary conduct of its affairs. It is the opinion of the City's management and counsel that settlement of these matters, if any, will not have a material adverse effect of the City's financial position.

Note 7 – Long-term Debt

Installment Contracts

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 through March 2018.

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 through August 2019.

In March 2012, the City entered into an installment purchase contract for \$632,500 to refinance another installment note related to two fire trucks. The financing agreement requires a monthly payment of \$7,104 including interest at 1.89% per annum through March 2020. The original amount of the previous note was \$790,000 with interest of 4.25% per annum. Defeasance of debt from this refinance occurred through a current refunding with no unamortized differences.

In September 2012, the City entered into an installment purchase contract for \$403,089 to finance the purchase of numerous vehicles and pieces of heavy equipment. The financing agreement requires monthly payments of \$7,011 including interest at 1.69% per annum through September 2017.

In December 2012, the City entered into an installment purchase contract for \$280,000 to finance the purchase of a Seagraves Tanker fire truck. The financing agreement requires monthly payments of \$2,751 including interest at 1.96% per annum through December 2022.

In July 2013, the City entered into an installment purchase contract for \$127,910 to finance the purchase of a new garbage truck. The financing agreement requires monthly payments of \$2,236 including interest at 1.89% per annum through July 2018.

In December 2014, the City entered into an installment purchase contract for \$426,000 to finance the purchase of the former Duke Energy Building located at 400 Cashiers Valley Road, Brevard, NC. The financing agreement requires monthly payments of \$3,978 including interest at 2.25% per annum through January 2025.

The future minimum payments of the installment purchases as of June 30, 2016 are as follows:

Year ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 286,383	\$ 20,233	\$ 306,616	\$ 75,228	\$ 5,887	\$ 81,115
2018	267,527	13,120	280,647	39,206	4,716	43,922
2019	153,769	7,263	161,032	27,741	4,082	31,823
2020	106,697	4,008	110,705	28,371	3,451	31,822
2021	44,153	2,611	46,764	29,016	2,808	31,824
2022-2025	98,950	681	99,631	106,792	4,518	111,310
	<u>\$ 957,479</u>	<u>\$ 47,916</u>	<u>\$1,005,395</u>	<u>\$ 306,354</u>	<u>\$ 25,462</u>	<u>\$ 331,816</u>

Revolving Loans

In May 2011, the City entered into a federal revolving loan through a grant for \$1,142,606 with a loan term of 16 years at 2.455% per annum for the Belt Press Grit Removal Capital Project. Interest is due semiannually starting in November 2013 through May 2029. Beginning in May 2014, the City is required to make annual principal payments of \$71,875 through May 2029.

In May 2012, the City entered into a federal revolving loan through a grant for \$749,375 with a loan term of 20 years at 2.00% per annum for the Kings Creek Sewer Capital Project. Interest is due semiannually starting in November 2013 through May 2033. Beginning in May 2014, the City is required to make annual principal payments of \$37,469 through May 2033.

In February 2014, the City entered into a federal revolving loan for \$1,360,500 with a term of 20 years at 0% interest. The loan is for replacement of 3,484 manual-read meters with radio-read meters. The City has recorded advanced funding of \$1,205,381 related to this loan as of June 30, 2016. Based on the estimated completion date of the project, the City expects to begin making

principal payments of \$68,025 in May 2017. The final payment terms will not be defined until the project is completed.

In May 2014, the City entered into a federal revolving loan for \$1,680,000 with a term of 20 years at 2% per annum. The loan is for the City Wide 6 Inch Gravity Sewer Upgrade Project. Interest is due semiannually starting in November 2016. Beginning in May 2017, the City is required to make annual principal payments of \$84,000 through May 2036.

In March 2013, the City entered into a federal revolving loan for \$2,641,000 with a term of 18 years at 0% interest. The loan is for the Burrell Mountain Water Tank Project. Beginning in May 2016, the City is required to make annual principal payments of \$146,728 through May 2033.

In August 2015, the City entered into a federal revolving loan for \$1,435,784 with a term of 20 years at 0% per annum. The loan is for the Kings Creek Phase II Sewer Rehabilitation and Replacement Project. The City has recorded advanced funding of \$134,019 related to this loan as of June 30, 2016. The payment terms will not be defined until the project is completed.

In October 2015, the City entered into a federal revolving loan for \$1,484,150 with a term of 20 years at 0% interest. The loan is for the Kings Creek Phase III Sewer Rehabilitation and Replacement Project. The City recorded advanced funding of \$152,620 related to this loan as of June 30, 2016. The payment terms will not be defined until the project is completed.

In October 2015, the City entered into a federal revolving loan for \$13,660,000 with a term of 20 years at 1.84% per annum. The loan is for the Neely Road Pump Station and Force Main Rehabilitation Project. The City recorded advanced funding of \$1,863,236 related to this loan as of June 30, 2016. The payment terms will not be defined until the project is completed.

The future minimum payments of the revolving loans as of June 30, 2016 are as follows:

Year ending June 30	Business-type Activities		
	Principal	Interest	Total
2017	\$ 399,879	\$ 119,764	\$ 519,643
2018	507,373	100,064	607,437
2019	507,373	95,748	603,121
2020	507,373	89,717	597,090
2021	507,373	81,055	588,428
2022-2026	2,536,864	238,447	2,775,311
2027-2030	3,190,312	121,007	3,311,319
2031-2033	938,416	48,018	986,434
	<u>\$ 9,094,963</u>	<u>\$ 893,820</u>	<u>\$ 9,988,783</u>

In addition to the minimum payments noted above, the City expects to incur approximately \$14,600,000 in additional federal revolving loan debt for projects that were already in process at June 30, 2016. The City makes draws against the available revolving loan funds as the costs are incurred. The funds are disbursed on a reimbursement basis. As discussed in the detailed description of each loan issuance above, the City has only recorded as a liability the advanced funding received as of June 30, 2016. Future payment terms will not be defined on these projects until the projects are complete and the City has received the proceeds.

Changes in Long-term Debt

	Balance July 1, 2015	Increase	Decrease	Balance July 1, 2016	Current Portion
Governmental Activities:					
Installment contracts	\$ 1,265,195	\$ -	\$ 307,716	\$ 957,479	\$ 286,383
Net pension obligation (LEO)	44,103	214	-	44,317	-
Net pension obligation (LGERS)	-	268,353	-	268,353	-
Compensated absences	240,656	136,279	113,793	263,141	136,279
Governmental activity long-term liabilities	<u>\$ 1,549,954</u>	<u>\$ 404,846</u>	<u>\$ 421,509</u>	<u>\$ 1,533,290</u>	<u>\$ 422,662</u>
Business-type Activities					
Installment contracts	\$ 380,148	\$ -	\$ 73,794	\$ 306,354	\$ 75,228
Revolving loans	4,845,390	4,505,184	255,611	9,094,963	399,879
Net pension obligation (LGERS)	-	78,879	-	78,879	-
Compensated absences	71,913	48,481	42,268	78,126	48,481
Business-type activity long-term liabilities	<u>\$ 5,297,451</u>	<u>\$4,632,544</u>	<u>\$ 371,673</u>	<u>\$ 9,558,322</u>	<u>\$ 523,588</u>

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.

As of June 30, 2016, the City's legal debt margin was approximately \$67,900,000.

Note 8 – Interfund Balances and Activity*A. Balances Due to/from Other Funds*

The composition of interfund balances as of June 30, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	T.L. Scruggs Scholarship Fund	\$ 315
	for reimbursement of expenses paid by the General Fund	
General Fund	Emergency Telephone System Fund	3,969
	for reimbursement of expenses paid by the General Fund	
General Fund	Pedestrian Bikeway Fund	650,000
	loaned to pedestrian bikeway fund for the Probart Street sidewalk project	
General Fund	Water and Sewer Fund	1,589,276
	loaned to the Water and Sewer Fund for capital projects and to be repaid with revolving debt funds upon reimbursement.	

B. *Transfers to/from Other Funds*

From the General Fund to the Special Fire District Fund for use in operations of the fire department	\$ 339,830
From the General Fund to the Health Insurance Fund in funding the anticipated shortfall from insurance claims per financial plan	145,500
From the General Fund to the Downtoan Master Plan Fund for use in downtown capital projects	180,000
From the General Fund to the Pedestrian Bikeway Fund for use in construction of bikeways around the City	258,196
From the General Fund to the Capital Reserve Fund for use in future stormwater runoff capital projects	5,325
From the Wayfinding Project Fund to the General Fund to return unneeded funds upon completion of the wayfinding project	7,702
From the Capital Reserve Fund to the Water & Sewer Fund for use in water and sewer capital projects	425,000
From the Capital Reserve Fund to the Rosenwald Revitalization Fund for use in downtown capital projects	200,000
From the Water & Sewer Fund to the Health Insurance Fund in funding the anticipated shortfall from insurance claims per financial plan	31,000

Note 9 – Net Investment in Capital Assets

The net investment in capital assets as of June 30, 2016 is calculated as follows:

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	6,550,421	23,740,448
Less: Long-term debt	<u>957,479</u>	<u>9,401,317</u>
Net investment in capital assets	<u><u>5,592,942</u></u>	<u><u>14,339,131</u></u>

Note 10 - Fund Balance

The following schedule provides management and citizens with information on the portion of the General Fund balance that is available for appropriation:

Total fund balance - General Fund	\$ 5,192,625
Less:	
Restricted for:	
Stablization by state statute	3,149,784
Public safety	155,055
Streets - Powell Bill	143,407
Committed:	
Capital projects	517,308
Assigned:	
Appropriated fund balance in 2017 budget	127,500
Minimum fund balance policy	<u>2,812,229</u>
Remaining fund balance (deficit)	<u><u>\$ (1,712,658)</u></u>

The City has adopted a minimum fund balance policy for the General Fund which instructs management to conduct business of the City in such a manner that available fund balance is at least equal to or greater than 30.0% of budgeted expenditures.

The current year deficit in available fund balance compared to the City's policy is primarily caused by interfund balances due to the General Fund from the Water and Sewer Fund. The City has obtained federal revolving loans for numerous water and sewer improvement projects. However, the City is required to self-fund the design and engineering stage of these projects until the projects are approved by the appropriate Federal and State agencies, at which point the General Fund will be reimbursed out of the debt proceeds. Management expects to receive reimbursements of approximately \$3,250,000 during the fiscal year ending June 30, 2017.

The City had no outstanding encumbrances related to purchase orders and contracts that remained unperformed at year-end.

Note 11 – Bjerg Nonexpendable Trust Fund

The Bjerg Nonexpendable Trust Fund, consisting of a gift of \$55,540 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 approximately \$32,000 of goods during the year from Harris Hardware and Farm Supply, Inc., which is operated by Mayor Jimmy Harris.

Note 14 – Summary Disclosure of Significant ContingenciesFederal and State Assisted Programs

The City has received federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Note 15 – Subsequent Events

In August 2016, the City completed the purchase of Fire Department extrication equipment through debt financing of \$122,000 at 1.74% interest for 5 years. The debt proceeds and related future debt service expenditures will be recorded in the special fire districts fund.

Note 16 – Prior Period Reclassification

During the fiscal year, it was determined that certain costs had been misclassified between projects in the water and sewer capital project fund. Appropriate corrections were made and the prior years column in the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP) has been updated to reflect the correct amounts. This was only a reclassification between line items. There was no effect on total prior year expenditures or fund balance.

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)
12/31/04	\$ -	\$ 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%
12/31/11	-	520,473	520,473	0%	958,533	54.30%
12/31/12	-	483,294	483,294	0%	1,188,871	40.65%
12/31/13	-	492,562	492,562	0%	1,113,599	44.23%
12/31/14	-	455,399	455,399	0%	1,265,255	35.99%
12/31/15	-	563,585	563,585	0%	1,192,033	47.28%

CITY OF BREVARD, NORTH CAROLINA

**OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress and Schedule of Employer Contributions

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)
12/31/09	\$ 51,000	\$ 201,789	\$ 150,789	25.3%	\$ 3,720,810	4.1%
12/31/10	51,027	178,002	126,975	28.7%	3,732,626	3.4%
12/31/11	81,330	201,941	120,611	40.3%	3,658,400	3.3%
12/31/14	156,468	243,050	86,582	64.4%	4,274,450	2.0%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2010	\$ 32,910	5%
2011	16,023	522%
2012	15,163	162%
2013	15,618	120%
2014	16,086	118%
2015	22,755	69%
2016	23,438	80%

CITY OF BREVARD, NORTH CAROLINA

CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
 REQUIRED SUPPLEMENTARY INFORMATION
 LAST THREE FISCAL YEAR'S *

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportionate share of the net pension liability (asset) (%)	0.07737%	0.07524%	0.07280%
City's proportion of the net pension liability (asset) (\$)	\$ 347,232	\$ (443,725)	\$ 877,520
City's covered-employee payroll	4,312,361	4,405,582	4,477,284
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.05%	10.07%	19.60%
Plan fiduciary net position as a percentage of the total pension liability **	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

CITY OF BREVARD, NORTH CAROLINA

**SCHEDULE OF CITY'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS**

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 296,217	\$ 315,304	\$ 319,008
Contribution in relation to the contractually required contribution	<u>296,217</u>	<u>315,304</u>	<u>319,008</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,312,361	\$ 4,405,582	\$ 4,477,284
Contributions as a percentage of covered- employee payroll	6.87%	7.16%	7.13%

CITY OF BREVARD, NORTH CAROLINA

CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
 REQUIRED SUPPLEMENTARY INFORMATION
 LAST TWO FISCAL YEARS *

Firefighter's and Rescue Squad Workers' Pension

	<u>2016</u>	<u>2015</u>
City's proportionate share of the net pension liability (asset) (%)	0.00000%	0.00000%
City's proportion of the net pension liability (asset) (\$)	\$ -	\$ -
State's proportionate share of the net pension liability associated with the City	<u>32,874</u>	<u>25,311</u>
Total	<u>\$ 32,874</u>	<u>\$ 25,311</u>
City's covered-employee payroll	\$ 256,786	\$ 209,861
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12.80%	12.06%
Plan fiduciary net position as a percentage of the total pension liability	91.40%	93.42%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

**COMBINING AND 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, 2016

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes:			
Current year	\$ 4,550,000	\$ 4,604,022	\$ 54,022
Prior years	10,000	7,390	(2,610)
Penalties and interest	11,000	15,785	4,785
Refunds paid on ad valorem tax	(2,500)	(2,603)	(103)
	<u>4,568,500</u>	<u>4,624,594</u>	<u>56,094</u>
Other Taxes and Licenses:			
Local option sales tax	1,350,000	1,395,935	45,935
Privilege licenses	-	1,380	1,380
Zoning administration	33,000	34,772	1,772
	<u>1,383,000</u>	<u>1,432,087</u>	<u>49,087</u>
Unrestricted Intergovernmental Revenues:			
Utilities sales tax	550,000	561,612	11,612
Beer and wine taxes	34,404	34,404	-
Video franchise fees	45,000	44,378	(622)
City of Brevard ABC Board	125,000	159,732	34,732
Payments in lieu of taxes	6,200	6,509	309
Solid waste disposal tax	5,000	5,073	73
	<u>765,604</u>	<u>811,708</u>	<u>46,104</u>
Restricted Intergovernmental Revenues:			
Powell Bill allocation	225,824	225,824	-
City narcotics investigation	45,000	39,396	(5,604)
Court facilities fees	2,500	2,871	371
Public safety - police grants	9,709	9,584	(125)
	<u>283,033</u>	<u>277,675</u>	<u>(5,358)</u>
Sales and Services:			
Recycling revenue	150,000	159,364	9,364
Rents	25,000	27,229	2,229
Parking violation penalties	1,500	1,695	195
Recreation revenues	15,000	13,042	(1,958)
Refuse collection fees	752,000	677,805	(74,195)
Vehicle maintenance	431,650	333,698	(97,952)
Concessions	3,000	3,656	656
	<u>1,378,150</u>	<u>1,216,489</u>	<u>(161,661)</u>
Investment earnings	5,100	6,679	1,579
Miscellaneous revenue	8,400	5,622	(2,778)
Total revenues	<u>8,391,787</u>	<u>8,374,854</u>	<u>(16,933)</u>
Expenditures			
General Government:			
Governing Body:			
Salaries and employee benefits		36,542	
Other operating expenses		76,512	
	<u>413,268</u>	<u>113,054</u>	<u>300,214</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, 2016

	Final Budget	Actual	Variance Positive (Negative)
Administration:			
Salaries and employee benefits		455,032	
Other operating expenses		157,691	
Allocation to utility fund		(287,500)	
	<u>330,156</u>	<u>325,223</u>	<u>4,933</u>
Finance:			
Salaries and employee benefits		271,266	
Other operating expenses		407,028	
Allocation to utility fund		(287,500)	
	<u>402,498</u>	<u>390,794</u>	<u>11,704</u>
Legal:			
Other operating expenses	68,000	65,161	2,839
Planning:			
Salaries and employee benefits		397,072	
Other operating expenses		345,729	
	<u>772,880</u>	<u>742,801</u>	<u>30,079</u>
Special Appropriations:			
Arts Council		10,000	
Chamber of Commerce		10,000	
Heart of Brevard		30,000	
Fireworks Participation		2,000	
Farmers market		17,000	
	<u>69,000</u>	<u>69,000</u>	<u>-</u>
Total General Government	<u>2,055,802</u>	<u>1,706,033</u>	<u>349,769</u>
Public Safety:			
Police:			
Salaries and employee benefits		2,092,118	
Other operating expenses		378,486	
Capital outlay		77,381	
Total Public Safety	<u>2,595,380</u>	<u>2,547,985</u>	<u>47,395</u>
Public Works:			
Administration:			
Salaries and employee benefits		232,607	
Other operating expenses		91,912	
	<u>330,938</u>	<u>324,519</u>	<u>6,419</u>
Central Maintenance:			
Salaries and employee benefits		157,086	
Other operating expenses		322,967	
	<u>536,461</u>	<u>480,053</u>	<u>56,408</u>
Streets:			
Salaries and employee benefits		382,556	
Other operating expenses		284,073	
	<u>669,217</u>	<u>666,629</u>	<u>2,588</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, 2016

	Final Budget	Actual	Variance Positive (Negative)
Powell Aid:			
Other operating expenses		215,611	
	<u>225,824</u>	<u>215,611</u>	10,213
Building and Grounds:			
Salaries and employee benefits		356,537	
Other operating expenses		285,233	
	<u>644,997</u>	<u>641,770</u>	3,227
Sanitation:			
Salaries and employee benefits		346,508	
Other operating expenses		373,250	
	<u>722,024</u>	<u>719,758</u>	2,266
Total Public Works	<u>3,129,461</u>	<u>3,048,340</u>	81,121
Cultural and Recreation:			
Recreation Department:			
Salaries and employee benefits		31,509	
Other operating expenses		50,255	
Total Culture and Recreation	<u>97,544</u>	<u>81,764</u>	15,780
Debt Service:			
Principal retirement		116,175	
Interest		8,609	
Total Debt Service	<u>125,570</u>	<u>124,784</u>	786
OPEB Expense:	12,000	12,000	-
Total expenditures	<u>8,015,757</u>	<u>7,520,906</u>	494,851
Revenues over expenditures	<u>376,030</u>	<u>853,948</u>	477,918
Other Financing Sources (Uses):			
Operating transfers (to) from other funds:			
Fire District Fund	(339,830)	(339,830)	-
Internal Service Fund	(145,500)	(145,500)	-
Downtown Master Plan Fund	(180,000)	(180,000)	-
Pedestrian Bikeway Fund	(608,196)	(258,196)	350,000
BJERG Trust	100	-	(100)
Capital Reserve Fund	-	(5,325)	(5,325)
Wayfinding Fund	-	7,702	7,702
Proceeds from sale of capital assets	12,396	12,224	(172)
Total other financing sources (uses)	<u>(1,261,030)</u>	<u>(908,925)</u>	352,105
Fund balance appropriated	<u>885,000</u>	-	(885,000)
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>(54,977)</u>	<u>\$ (54,977)</u>
Fund balance, beginning of year		<u>4,730,294</u>	
Fund balance, end of year		<u>\$ 4,675,317</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, 2016

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Impact fees - water and sewer	\$ 20,000	\$ 51,657	\$ 31,657
Fees in lieu of infrastructure	-	3,022	3,022
Investment earnings	-	56	56
Total revenues	<u>20,000</u>	<u>54,735</u>	<u>34,735</u>
Expenditures:			
Miscellaneous expense	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Revenues over expenditures	<u>-</u>	<u>54,735</u>	<u>54,735</u>
Other Financing Sources (Uses):			
Fund balance appropriated	625,000	-	(625,000)
Operating transfers from (to):			
General Fund	-	5,325	5,325
Water and Sewer Fund	(425,000)	(425,000)	-
Rosenwald Revitalization Fund	(200,000)	(200,000)	-
Total other financing sources (uses)	<u>-</u>	<u>(619,675)</u>	<u>(619,675)</u>
Revenues and other sources under expenditures and other uses	<u>\$ -</u>	<u>(564,940)</u>	<u>\$ (564,940)</u>
Fund balance, beginning of year		<u>1,082,248</u>	
Fund balance, end of year		<u>\$ 517,308</u>	
Fund balance committed for:			
Streets and sidewalks		\$ 73,580	
Water and sewer projects		443,728	
		<u>\$ 517,308</u>	

CITY OF BREVARD, NORTH CAROLINA

PEDESTRIAN/BIKEWAY CAPITAL PROJECT FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
From inception and for the year ended June 30, 2016

	<u>Actual through June 30, 2016</u>				Variance Positive (Negative)
	Project Authorization	Prior Years	Current Year	Total to Date	
Revenues					
Restricted intergovernmental	\$ 804,000	\$ 54,000	\$ 135,720	\$ 189,720	\$ (614,280)
Expenditures:					
West loop phase I	257,000	-	126,115	126,115	130,885
Cherry Street bike/hike path	92,000	89,859	-	89,859	2,141
Paths, sidewalks, and signage	480,000	-	105,121	105,121	374,879
Probart Street sidewalk project	722,000	-	-	-	722,000
Railroad avenue project	175,000	-	169,650	169,650	5,350
Total expenditures	<u>1,726,000</u>	<u>89,859</u>	<u>400,886</u>	<u>490,745</u>	<u>1,235,255</u>
Revenues under expenditures	<u>(922,000)</u>	<u>(35,859)</u>	<u>(265,166)</u>	<u>(301,025)</u>	<u>620,975</u>
Other Financing Sources:					
Fund balance appropriated	634,000	-	-	-	(634,000)
Transfers from Capital Reserve	38,000	38,000	-	38,000	-
Transfers from General Fund	250,000	207,594	258,196	465,790	215,790
Total other financing sources	<u>922,000</u>	<u>245,594</u>	<u>258,196</u>	<u>503,790</u>	<u>(418,210)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 209,735</u>	<u>(6,970)</u>	<u>\$ 202,765</u>	<u>\$ 202,765</u>
Fund balance, beginning of year			<u>209,735</u>		
Fund balance, end of year			<u>\$ 202,765</u>		

CITY OF BREVARD, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS

Combining Balance Sheet

June 30, 2016

	Special Revenue			Capital Projects					Permanent	Total Nonmajor Governmental Funds
	Special Fire District Fund	Heart of Brevard Municipal Service District Fund	Emergency Telephone System Fund	Wayfinding Project Fund	Downtown Master Plan Project Fund	Bracken Mountain Trail Project Fund	Rosenwald Revitalization Project Fund	Housing Trust Fund	Non-expendable Bjerg Trust Fund	
ASSETS										
Cash and cash equivalents, restricted	\$ 34,016	\$ -	\$ -	\$ -	\$ 207,076	\$ -	\$ 128,382	\$ 66,793	\$ 60,143	\$ 496,410
Taxes receivable, net	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	13,332	60	13,392
Due from other governments	-	301	10,761	-	-	-	-	-	-	11,062
Total assets	<u>\$ 34,016</u>	<u>\$ 301</u>	<u>\$ 10,761</u>	<u>\$ -</u>	<u>\$ 207,076</u>	<u>\$ -</u>	<u>\$ 128,382</u>	<u>\$ 80,125</u>	<u>\$ 60,203</u>	<u>\$ 520,864</u>
LIABILITIES										
Accounts payable and accrued liabilities	\$ 8,379	\$ 301	\$ -	\$ -	\$ 24,825	\$ -	\$ 475	\$ -	\$ -	\$ 33,980
Due to the general fund	-	-	3,969	-	-	-	-	-	-	3,969
Total liabilities	<u>8,379</u>	<u>301</u>	<u>3,969</u>	<u>-</u>	<u>24,825</u>	<u>-</u>	<u>475</u>	<u>-</u>	<u>-</u>	<u>37,949</u>
FUND BALANCES										
Nonspendable	-	-	-	-	-	-	-	-	55,440	55,440
Restricted for:										
Stabilization by state statute	-	-	-	-	-	-	-	13,332	60	13,392
Public safety	25,637	-	6,792	-	-	-	-	-	-	32,429
Capital projects	-	-	-	-	182,251	-	127,907	66,793	-	376,951
Perpetual maintenance	-	-	-	-	-	-	-	-	4,703	4,703
Total fund balances	<u>25,637</u>	<u>-</u>	<u>6,792</u>	<u>-</u>	<u>182,251</u>	<u>-</u>	<u>127,907</u>	<u>80,125</u>	<u>60,203</u>	<u>482,915</u>
Total liabilities and fund balances	<u>\$ 34,016</u>	<u>\$ 301</u>	<u>\$ 10,761</u>	<u>\$ -</u>	<u>\$ 207,076</u>	<u>\$ -</u>	<u>\$ 128,382</u>	<u>\$ 80,125</u>	<u>\$ 60,203</u>	<u>\$ 520,864</u>

CITY OF BREVARD, NORTH CAROLINA
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2016

	Special Revenue			Capital Projects					Permanent	Total Nonmajor Governmental Funds
	Special Fire District Fund	Heart of Brevard Municipal Service District Fund	Emergency Telephone System Fund	Wayfinding Project Fund	Downtown Master Plan Project Fund	Bracken Mountain Trail Project Fund	Rosenwald Revitalization Project Fund	Housing Trust Fund	Non-expendable Bjerg Trust Fund	
Revenues:										
Ad valorem taxes	\$ 308,700	\$ 122,409	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 431,109
Restricted intergovernmental	-	-	64,567	-	-	-	130,637	-	-	195,204
Investment earnings	-	-	-	-	-	-	-	67	60	127
Miscellaneous	580	-	-	-	(289,000)	-	-	26,536	-	(261,884)
Total revenues	309,280	122,409	64,567	-	(289,000)	-	130,637	26,603	60	364,556
Expenditures:										
Public safety	449,851	-	57,775	-	-	-	-	-	-	507,626
Economic and physical development	-	122,409	-	-	-	-	-	-	-	122,409
Capital outlay	-	-	-	-	508,533	18,268	288,767	-	-	815,568
Debt service:										
Principal retirement	191,541	-	-	-	-	-	-	-	-	191,541
Interest	19,351	-	-	-	-	-	-	-	-	19,351
Total expenditures	660,743	122,409	57,775	-	508,533	18,268	288,767	-	-	1,656,495
Revenues over (under) expenditures	(351,463)	-	6,792	-	(797,533)	(18,268)	(158,130)	26,603	60	(1,291,939)
Other Financing Sources (Uses)										
Transfers in (out):										
General fund	339,830	-	-	(7,702)	180,000	-	-	-	-	512,128
Capital reserve fund	-	-	-	-	-	-	200,000	-	-	200,000
Total other financing sources (uses)	339,830	-	-	(7,702)	180,000	-	200,000	-	-	712,128
Net change in fund balances	(11,633)	-	6,792	(7,702)	(617,533)	(18,268)	41,870	26,603	60	(579,811)
Fund balances, beginning	37,270	-	-	7,702	799,784	18,268	86,037	53,522	60,143	1,062,726
Fund balances, ending	\$ 25,637	\$ -	\$ 6,792	\$ -	\$ 182,251	\$ -	\$ 127,907	\$ 80,125	\$ 60,203	\$ 482,915

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, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Ad valorem taxes	\$ 308,700	\$ 308,700	\$ -
Miscellaneous	-	580	580
Total revenues	<u>308,700</u>	<u>309,280</u>	<u>580</u>
Expenditures:			
Public Safety:			
Salaries and employee benefits		283,761	
Other operating expenses		166,090	
Total public safety	<u>457,638</u>	<u>449,851</u>	<u>7,787</u>
Debt Service:			
Principal retirement		191,541	
Interest		19,351	
Total debt service	<u>210,892</u>	<u>210,892</u>	<u>-</u>
Total expenditures	<u>668,530</u>	<u>660,743</u>	<u>7,787</u>
Revenues under expenditures	<u>(359,830)</u>	<u>(351,463)</u>	<u>8,367</u>
Other Financing Sources:			
Fund balance appropriated	20,000	-	(20,000)
Transfer from general fund	339,830	339,830	-
Total other financing sources	<u>359,830</u>	<u>339,830</u>	<u>(20,000)</u>
Revenues and other sources under expenditures	<u>\$ -</u>	<u>(11,633)</u>	<u>\$ (11,633)</u>
Fund balance, beginning of year		<u>37,270</u>	
Fund balance, end of year		<u>\$ 25,637</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, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Ad valorem taxes	<u>\$ 130,700</u>	<u>\$ 122,409</u>	<u>\$ (8,291)</u>
Expenditures:			
Contracted services	<u>130,700</u>	<u>122,409</u>	<u>8,291</u>
Revenues over expenditures	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>\$ -</u></u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		<u><u>\$ -</u></u>	

CITY OF BREVARD, NORTH CAROLINA

EMERGENCY TELEPHONE SYSTEM FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Restricted intergovernmental	<u>\$ 64,000</u>	<u>\$ 64,567</u>	<u>\$ 567</u>
Expenditures:			
Public safety	<u>64,000</u>	<u>57,775</u>	<u>6,225</u>
Net change in fund balance	<u>\$ -</u>	<u>6,792</u>	<u>\$ 6,792</u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		<u>\$ 6,792</u>	

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, 2016

	<u>Actual through June 30, 2016</u>				Variance Positive (Negative)
	Project Authorization	Prior Years	Current Year	Total to Date	
Revenues:					
TDA grant	\$ 8,500	\$ 8,500	\$ -	\$ 8,500	\$ -
TDA grant (no. 2)	-	25,000	-	25,000	25,000
Interest	-	1,250	-	1,250	1,250
Miscellaneous	15,562	15,500	-	15,500	(62)
Total revenues	<u>24,062</u>	<u>50,250</u>	<u>-</u>	<u>50,250</u>	<u>26,188</u>
Expenditures:					
Design, fabrication, and install	519,062	307,548	-	307,548	211,514
Revenues over (under) expenditures	<u>(495,000)</u>	<u>(257,298)</u>	<u>-</u>	<u>(257,298)</u>	<u>237,702</u>
Other Financing Sources:					
Transfer (to)/from General Fund	495,000	265,000	(7,702)	257,298	(237,702)
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 7,702</u>	(7,702)	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>7,702</u>		
Fund balance, end of year			<u>\$ -</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, 2016

	<u>Actual through June 30, 2016</u>				Variance Positive (Negative)
	Project Authorization	Prior Years	Current Year	Total to Date	
Revenues:					
Donation from (refund to) Brevard resident	\$ -	\$ 360,167	\$ (300,000)	\$ 60,167	\$ 60,167
Easement purchase - NC Dept of Transportation	22,500	22,500	-	22,500	-
Heart of Brevard Municipal Service	11,000	45,353	11,000	56,353	45,353
Investment earnings	-	120	-	120	120
Total revenues	<u>33,500</u>	<u>428,140</u>	<u>(289,000)</u>	<u>139,140</u>	<u>105,640</u>
Expenditures:					
Clemson Park and other downtown improvements	1,031,334	278,677	508,533	787,210	244,124
Caldwell Street improvements	362,000	-	-	-	362,000
Total expenses	<u>1,393,334</u>	<u>278,677</u>	<u>508,533</u>	<u>787,210</u>	<u>606,124</u>
Revenues under expenditures	<u>(1,359,834)</u>	<u>149,463</u>	<u>(797,533)</u>	<u>(648,070)</u>	<u>711,764</u>
Other Financing Sources:					
Fund balance appropriated	1,040,334	-	-	-	(1,040,334)
Operating transfer from other funds:					
General Fund	180,000	180,000	180,000	360,000	180,000
Capital Reserve Fund	139,500	470,321	-	470,321	330,821
Total other financing sources	<u>1,359,834</u>	<u>650,321</u>	<u>180,000</u>	<u>830,321</u>	<u>(529,513)</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 799,784</u>	<u>(617,533)</u>	<u>\$ 182,251</u>	<u>\$ 182,251</u>
Fund balance, beginning of year			<u>799,784</u>		
Fund balance, end of year			<u>\$ 182,251</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, 2016

	<u>Actual through June 30, 2016</u>				
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Investment earnings	\$ -	\$ 177	\$ -	\$ 177	\$ 177
North Carolina DENR grant	5,000	2,919	-	2,919	(2,081)
Total revenues	<u>5,000</u>	<u>3,096</u>	<u>-</u>	<u>3,096</u>	<u>(1,904)</u>
Expenditures:					
Start-up costs	90,000	44,126	-	44,126	45,874
Construction	428,000	442,990	18,268	461,258	(33,258)
Total expenditures	<u>518,000</u>	<u>487,116</u>	<u>18,268</u>	<u>505,384</u>	<u>12,616</u>
Revenues under expenditures	<u>(513,000)</u>	<u>(484,020)</u>	<u>(18,268)</u>	<u>(502,288)</u>	<u>10,712</u>
Other Financing Sources:					
Operating transfer from other funds:					
General Fund	136,099	125,387	-	125,387	(10,712)
Capital Reserve Fund	376,901	376,901	-	376,901	-
Total other financing sources	<u>513,000</u>	<u>502,288</u>	<u>-</u>	<u>502,288</u>	<u>(10,712)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 18,268</u>	<u>(18,268)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>18,268</u>		
Fund balance, end of year			<u><u>\$ -</u></u>		

CITY OF BREVARD, NORTH CAROLINA

ROSENWALD REVITALIZATION CAPITAL PROJECT FUND
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 From inception and for the year ended June 30, 2016

	<u>Actual through June 30, 2016</u>				Variance Positive (Negative)
	Project Authorization	Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental	\$ 205,637	\$ 75,000	\$ 130,637	\$ 205,637	\$ -
Expenses:					
Revitalization project	698,674	212,463	288,767	501,230	197,444
Revenues under expenditures	(493,037)	(137,463)	(158,130)	(295,593)	197,444
Other Financing Sources:					
Operating transfer from other funds:					
General Fund	293,037	223,500	-	223,500	(69,537)
Capital Reserve Fund	200,000	-	200,000	200,000	-
	493,037	223,500	200,000	423,500	(69,537)
Revenues over other financing sources and expenditures	<u>\$ -</u>	<u>\$ 86,037</u>	41,870	<u>\$ 127,907</u>	<u>\$ 127,907</u>
Fund balance, beginning of year			<u>86,037</u>		
Fund balance, end of year			<u>\$ 127,907</u>		

CITY OF BREVARD, NORTH CAROLINA

HOUSING TRUST CAPITAL PROJECT FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
From inception and for the year ended June 30, 2016

	<u>Actual through June 30, 2016</u>				Variance Positive (Negative)
	Project Authorization	Prior Years	Current Year	Total to Date	
Revenues:					
Developer loan repayment	\$ 53,328	\$ 53,328	\$ 26,536	\$ 79,864	\$ 26,536
Investment earnings	-	325	67	392	392
Total revenues	<u>53,328</u>	<u>53,653</u>	<u>26,603</u>	<u>80,256</u>	<u>26,928</u>
Expenditures:					
Construction	<u>53,328</u>	<u>131</u>	<u>-</u>	<u>131</u>	<u>53,197</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ 53,522</u>	<u>26,603</u>	<u>\$ 80,125</u>	<u>\$ 80,125</u>
Fund balance, beginning of year			<u>53,522</u>		
Fund balance, end of year			<u>\$ 80,125</u>		

CITY OF BREVARD, NORTH CAROLINA

WATER AND SEWER FUND

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

For the year ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for utilities:			
Water	\$ 2,350,000	\$ 2,301,102	\$ (48,898)
Sewer	2,120,000	2,012,037	(107,963)
Taps and connection fees:			
Water	2,500	14,000	11,500
Sewer	10,000	26,200	16,200
Other operating revenues	196,000	214,264	18,264
Total revenues	4,678,500	4,567,603	(110,897)
Expenditures:			
Water Service:			
Water Treatment:			
Salaries and employee benefits		313,337	
Other operating expenses		553,129	
Capital outlay		152,174	
	1,063,405	1,018,640	44,765
Water Distribution:			
Salaries and employee benefits		245,767	
Other operating expenses		267,691	
Capital outlay		-	
	527,974	513,458	14,516
Total water service	1,591,379	1,532,098	59,281
Sewer Service:			
Sewage Treatment:			
Salaries and employee benefits		476,959	
Other operating expenses		985,361	
Capital outlay		162,367	
	1,774,896	1,624,687	150,209
Sewer Maintenance:			
Salaries and employee benefits		315,082	
Other operating expenses		455,698	
Capital outlay		42,197	
	821,332	812,977	8,355
Total sewer service	2,596,228	2,437,664	158,564

CITY OF BREVARD, NORTH CAROLINA

WATER AND SEWER FUND

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

For the year ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Debt Service:			
Interest and fees		45,900	
Debt principal		329,395	
Total debt service	433,457	375,295	58,162
Nondepartmental:			
Payment to general fund in lieu of taxes and administrative expenses		575,000	
Administration		-	
OPEB expense		6,750	
Miscellaneous		21,317	
	601,750	603,067	(1,317)
Total expenditures	5,222,814	4,948,124	274,690
Revenues under expenditures	(544,314)	(380,521)	163,793
Other financing sources (uses):			
Fund balance appropriated	150,314	-	(150,314)
Transfer from capital reserve fund	425,000	425,000	-
Transfer to capital project fund	-	(45,585)	(45,585)
Transfer to internal service fund	(31,000)	(31,000)	-
Total other financing sources (uses)	544,314	348,415	(195,899)
Revenues and other sources over expenditures and other uses	\$ -	(32,106)	\$ (32,106)
Reconciliation of Budgetary Basis to Full Accrual Basis:			
Reconciling items:			
Revolving loan advances		(4,505,174)	
Payment of debt principal		329,395	
Capital outlay		356,738	
Construction in process - Capital Project Fund		4,976,582	
Contribution to capital project fund		45,585	
Net change in fund balance - Capital Project Fund		(425,823)	
Increase in OPEB asset		1,819	
Decrease in net pension asset		(102,055)	
Increase in deferred outflows of resources - pension		4,999	
Increase in net pension liability		(78,879)	
Decrease in deferred inflows of resources - pension		198,284	
Increase in accrued interest		(9,700)	
Increase in accrued vacation		(6,213)	
Depreciation		(505,110)	
Change in Net Position		\$ 248,342	

CITY OF BREVARD, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECTS FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP)
From inception and for the year ended June 30, 2016

	Actual through June 30, 2016				Variance Positive (Negative)
	Project Authorization	(As Restated) Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:					
Water storage tank project	2,669,457	1,749,879	898,843	2,648,722	20,735
Kings Creek sewer phases 2-3	2,977,817	254,581	235,290	489,871	2,487,946
Six inch sewer upgrade	1,680,000	366,651	1,375,139	1,741,790	(61,790)
Neely Road tank project	13,505,061	1,042,701	820,535	1,863,236	11,641,825
Radio read meters	1,360,500	7,793	1,197,588	1,205,381	155,119
Wastewater treatment plant improvements	-	-	273,786	273,786	(273,786)
Brevard Academy sewer line extension	-	-	175,401	175,401	(175,401)
Total expenditures	<u>22,192,835</u>	<u>3,421,605</u>	<u>4,976,582</u>	<u>8,398,187</u>	<u>13,794,648</u>
Revenues under expenditures	<u>(22,192,835)</u>	<u>(3,421,605)</u>	<u>(4,976,582)</u>	<u>(8,398,187)</u>	<u>13,794,648</u>
Other Financing Sources:					
Proceeds from issuance of debt					
Clean water state revolving fund	17,028,539	1,564,135	2,369,174	3,933,309	(13,095,230)
Drinking water state revolving fund	4,257,135	1,607,038	2,136,000	3,743,038	(514,097)
Transfer from Water and Sewer Fund	907,161	289,015	45,585	334,600	(572,561)
	<u>22,192,835</u>	<u>3,460,188</u>	<u>4,550,759</u>	<u>8,010,947</u>	<u>(14,181,888)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 38,583</u>	<u>(425,823)</u>	<u>\$ (387,240)</u>	<u>\$ (387,240)</u>
Fund balance (deficit), beginning of year			<u>38,583</u>		
Fund balance (deficit), end of year			<u>\$ (387,240)</u>		

CITY OF BREVARD, NORTH CAROLINA

INSURANCE INTERNAL SERVICE FUND

Schedule of Revenues and Expenditures - Financial Plan and Actual (Non-GAAP)

For the year ended June 30, 2016

	Financial Plan	Actual	Variance Positive (Negative)
Revenues:			
Charges for services	<u>\$ 1,081,500</u>	<u>\$ 1,082,406</u>	<u>\$ 906</u>
Expenditures:			
Claims		925,579	
Insurance premiums		173,502	
Other operating expenses		209,434	
Total expenditures	<u>1,523,000</u>	<u>1,308,515</u>	<u>214,485</u>
Revenues under expenditures	<u>(441,500)</u>	<u>(226,109)</u>	<u>215,391</u>
Other Financing Sources:			
Appropriated fund balance	265,000	-	(265,000)
Transfer from other funds	<u>176,500</u>	176,500	-
Total other financing sources	<u>441,500</u>	<u>176,500</u>	<u>(265,000)</u>
Revenues and other sources under expenditures	<u>\$ -</u>	<u>\$ (49,609)</u>	<u>\$ (49,609)</u>

SUPPLEMENTAL FINANCIAL DATA

CITY OF BREVARD, NORTH CAROLINA

GENERAL FUND

Schedule of Ad Valorem Taxes Receivable

For the year ended June 30, 2016

<u>Fiscal Year</u>	<u>Uncollected Balance 6/30/2015</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance 6/30/2016</u>
2015-2016	\$ -	\$ 4,629,859	\$ 4,626,539	\$ 3,320
2014-2015	4,852	-	1,983	2,869
2013-2014	4,878	-	429	4,449
2012-2013	7,293	-	3,193	4,100
2011-2012	1,546	-	21	1,525
2010-2011	2,728	-	-	2,728
2009-2010	1,157	-	10	1,147
2008-2009	1,579	-	95	1,484
2007-2008	2,187	-	19	2,168
2006-2007 and prior	5,061	-	3,166	1,895
	<u>\$ 31,281</u>	<u>\$ 4,629,859</u>	<u>\$ 4,635,455</u>	<u>25,685</u>
Less: allowance for uncollectible accounts:				
	General Fund			<u>11,000</u>
	Ad valorem taxes receivable, net			<u>\$ 14,685</u>
<u>Reconciliation with revenues:</u>				
	Ad valorem taxes - General Fund			\$ 4,624,594
	Reconciling items:			
	Releases			5,502
	Interest collected			(15,785)
	Refunds and other adjustments			21,144
	Total collections and credits			<u>\$ 4,635,455</u>

CITY OF BREVARD, NORTH CAROLINA

GENERAL FUND

Analysis of Current Tax Levy
For the year ended June 30, 2016

	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rates	\$ 961,736,720	0.004725	\$ 4,544,206	\$ 4,318,155	\$ 226,051
Penalties			5,299	5,299	-
Total			<u>4,549,505</u>	<u>4,323,454</u>	<u>226,051</u>
Discoveries:	17,006,138		80,354	80,354	-
Abatements	<u>(218,836)</u>		<u>(1,034)</u>	<u>(1,034)</u>	-
Total property valuation	<u><u>\$ 978,524,022</u></u>				
Net levy			4,628,825	4,402,774	226,051
Uncollected taxes at June 30, 2016			<u>3,320</u>	<u>3,320</u>	-
Current year's taxes collected			<u><u>\$ 4,625,505</u></u>	<u><u>\$ 4,399,454</u></u>	<u><u>\$ 226,051</u></u>
Current levy collection percentage			<u><u>99.93%</u></u>	<u><u>99.92%</u></u>	<u><u>100.00%</u></u>

COMPLIANCE SECTION



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

Independent Auditors' Report

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

We have audited, in accordance with the 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 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, 2016, and the related notes to the financial statements, which collectively comprises the City of Brevard's basic financial statements, and have issued our report thereon dated January 6, 2017. Our report includes a reference to other auditors who audited the financial statements of the City of Brevard ABC Board, as described in our report on the City of Brevard's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the City of Brevard ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Brevard's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

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

We noted certain other matters that we reported to management of the City of Brevard in a separate letter dated January 6, 2017.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

David Killian CPA Group, P.A.

Asheville, North Carolina
January 6, 2017



**GOULD KILLIAN
CPA GROUP, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

**Report On Compliance With Requirements Applicable To Each Major
Federal Program And Internal Control Over Compliance In Accordance With
OMB Uniform Guidance and the State Single Audit Implementation Act**

Independent Auditors' Report

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

Report on Compliance for Each Major federal Program

We have audited the City of Brevard, North Carolina, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Brevard's major federal programs for the year ended June 30, 2016. The City of Brevard's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Brevard's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the OMB Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Brevard's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Brevard's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Brevard complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the City of Brevard is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Brevard's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
January 6, 2017

City of Brevard, North Carolina
Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2016

Section I. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____yes X none reported

Noncompliance material to financial statements noted _____yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____yes X no
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____yes X none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.156(a)? _____yes X no

Major federal programs for the City of Brevard for the fiscal year ended June 30, 2016 are:

CFDA Number	Program Name
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Drinking Water State Revolving Funds

The threshold for determining Federal Type A programs for the City of Brevard is \$750,000.

The City qualifies as a low-risk auditee.

City of Brevard, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Section I. Summary of Auditor's Results (Continued)

State Awards

The only major state programs for the City of Brevard were the Capitalization Grants for Clean State Water Revolving Funds (66.458), Drinking Water State Revolving Funds (66.468) which are State matches on federal programs. Therefore, these programs have been included in the list of major federal programs above.

City of Brevard, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

Section IV – State Award Findings and Questioned Costs

None reported.

City of Brevard, North Carolina
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2016

There were no audit findings reported in the prior year.

CITY OF BREVARD

Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2016

	Federal CFDA Number	State/Pass-Through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
Federal Awards					
<u>Environmental Protection Agency</u>					
Passed-through the N.C Dept of Environment and Natural Resources:					
Capitalization Grants for Clean Water State Revolving Fund	66.458	DENR-10	\$ 1,895,339	\$ 473,835	\$ -
Drinking Water State Revolving Fund	66.468	DENR-17	1,708,800	427,200	-
Total Environmental Protection Agency			<u>3,604,139</u>	<u>901,035</u>	<u>-</u>
<u>U.S. Department of Transportation</u>					
<u>Federal Highway Administration</u>					
Passed-through the N.C Department of Transportation:					
Highway Planning and Construction	20.205		135,720	-	-
Governor's Highway Safety Program	20.600		9,584	-	-
Total U.S. Department of Transportation			<u>145,304</u>	<u>-</u>	<u>-</u>
Total Federal Awards and State Matches			<u>3,749,443</u>	<u>901,035</u>	<u>-</u>
State Awards					
<u>N. C. Department of Transportation:</u>					
Non-State System Street-Aid (Powell Bill)		DOT-4	-	215,611	-
Total N.C. Department of Transportation			<u>-</u>	<u>215,611</u>	<u>-</u>
<u>N.C. Department of Environment and Natural Resources</u>					
Parks and Recreation Trust Fund		DENR-23	-	130,637	-
Total N.C. Department of Environment and Natural Resources			<u>-</u>	<u>130,637</u>	<u>-</u>
Total State awards			<u>-</u>	<u>346,248</u>	<u>-</u>
Total Federal and State awards			<u>\$ 3,749,443</u>	<u>\$ 1,247,283</u>	<u>\$ -</u>

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

- Basis of Presentation
The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and State grant activity of the City of Brevard under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the City of Brevard, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Brevard.
- Summary of Significant Accounting Policies
Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Brevard has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.
- Loans Outstanding
The City of Brevard had the following loan balances outstanding at June 30, 2016 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2016 consist of:

Program Title	CFDA Number	Pass-through Grantor's Number	Amount Outstanding
Clean Water Revolving Fund	66.458	-	\$ 3,829,875
Drinking Water Revolving Fund	66.468	-	\$ 1,205,381