

**City of Brevard, North Carolina**

**Financial Statements**

**Year Ended June 30, 2017**



# CITY OF BREVARD, NORTH CAROLINA



## City Council As of June 30, 2017

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

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**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, 2017, 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, 2017, 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 Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on page 56, the Other Postemployment Benefits Schedules of Funding Progress and Employer Contributions on page 57, 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 November 15, 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.

*Donald Killian CPA Group, P.A.*

Asheville, North Carolina  
November 15, 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, 2017. 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.

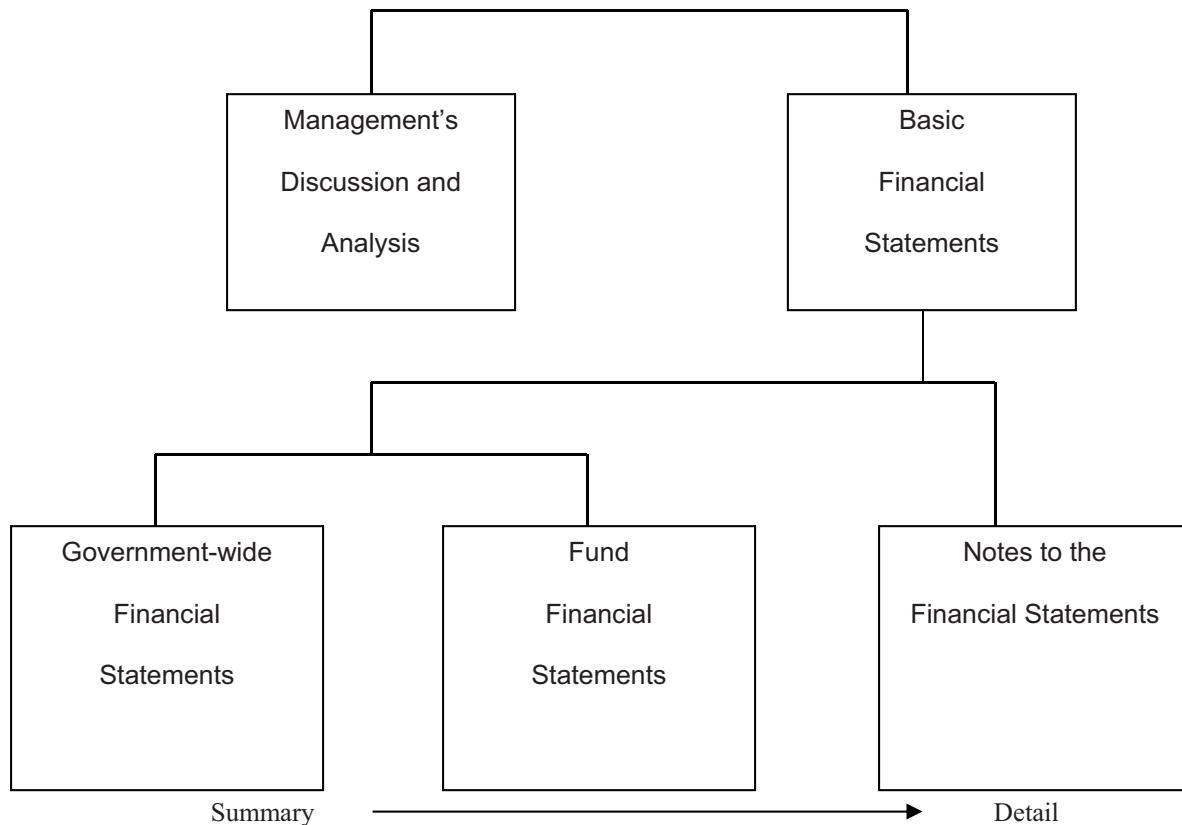
### Financial Highlights

- The assets and deferred outflows of the City of Brevard exceeded its liabilities and deferred inflows at the close of the fiscal year by \$26,564,748 (net position).
- The City's total net position increased by \$47,623 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 \$5,871,538, a decrease of \$376,527 in comparison with the prior year. Approximately 45% of this total amount, or \$2,637,427, is nonspendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,820,002. This represents approximately 36% of total general fund expenditures for the fiscal year.
- Outstanding governmental installment obligations increased by \$92,659 due to new installment financing of \$407,689 for equipment and repayment of \$315,030.
- Outstanding installment and revolving loan debt in the Water and Sewer Fund increased by \$10,526,870 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 26 through 55 of this report.

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

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2017	As Restated 2016	2017	2016	2017	As Restated 2016	
Current and other assets	\$ 5,844,332	\$ 6,816,568	\$ 3,390,688	\$ 2,225,165	\$ 9,235,020	\$ 9,041,733	2%
Capital assets	7,489,085	6,550,421	34,706,736	23,740,448	42,195,821	30,290,869	39%
Deferred outflows of resources	1,086,207	263,724	267,683	77,519	1,353,890	341,243	297%
Total assets and deferred outflows of resources	14,419,624	13,630,713	38,365,107	26,043,132	52,784,731	39,673,845	33%
Long-term liabilities	3,050,591	1,993,482	20,301,557	9,558,322	23,352,148	11,551,804	102%
Other liabilities	439,114	341,789	2,329,039	1,082,652	2,768,153	1,424,441	94%
Deferred inflows of resources	81,851	139,477	17,831	40,998	99,682	180,475	-45%
Total liabilities and deferred inflows of resources	3,571,556	2,474,748	22,648,427	10,681,972	26,219,983	13,156,720	99%
Net position:							
Net investment in capital assets	6,072,364	5,592,942	14,778,549	14,339,131	20,850,913	19,932,073	5%
Restricted	2,527,779	4,011,441	-	-	2,527,779	4,011,441	-37%
Unrestricted	2,247,925	1,551,582	938,131	1,022,029	3,186,056	2,573,611	24%
Total net position	\$ 10,848,068	\$ 11,155,965	\$ 15,716,680	\$ 15,361,160	\$ 26,564,748	\$ 26,517,125	0%

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 \$26,564,748 as of June 30, 2017. The City's net position increased by \$47,623 for the fiscal year ended June 30, 2017. The largest portion (78%) 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 (10%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,186,056 (12%) 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 99.88% for the year ending June 30, 2017, 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 \$121,430 or 8.7%, mainly due to growth in local retail sales as a result of continued economic improvements since 2011.
- Total expenses increased by approximately \$1,443,673 or 9.8%. 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
	2017	2016	2017	2016	2017	2016	
Revenues							
Program revenues:							
Charges for services	\$ 1,313,571	\$ 1,271,168	\$ 4,937,154	\$ 4,567,603	\$ 6,250,725	\$ 5,838,771	7%
Operating grants and contributions	345,202	342,242	-	-	345,202	342,242	1%
Capital grants and contributions	552,500	266,357	-	-	552,500	266,357	107%
General revenues:							
Property taxes	5,102,791	5,046,808	-	-	5,102,791	5,046,808	1%
Sales taxes	1,517,365	1,395,935	-	-	1,517,365	1,395,935	8.7%
Other	940,631	610,684	-	-	940,631	610,684	54%
Total revenues	<u>9,772,060</u>	<u>8,933,194</u>	<u>4,937,154</u>	<u>4,567,603</u>	<u>14,709,214</u>	<u>13,500,797</u>	9%
Expenses							
General government	1,833,281	1,829,619	-	-	1,833,281	1,829,619	0%
Public safety	3,668,786	3,319,061	-	-	3,668,786	3,319,061	11%
Public works	3,515,399	3,215,833	-	-	3,515,399	3,215,833	9%
Economic and physical development	885,850	122,409	-	-	885,850	122,409	624%
Culture and recreation	154,564	123,002	-	-	154,564	123,002	26%
Interest on long-term debt	22,077	26,360	-	-	22,077	26,360	-16%
Water and sewer	-	-	4,581,634	4,713,261	4,581,634	4,713,261	-3%
Total expenses	<u>10,079,957</u>	<u>8,636,284</u>	<u>4,581,634</u>	<u>4,713,261</u>	<u>14,661,591</u>	<u>13,349,545</u>	10%
Transfers	-	(394,000)	-	394,000	-	-	
Increase (decrease) in net position	(307,897)	(97,090)	355,520	248,342	47,623	151,252	-69%
Net position, beginning, restated	11,155,965	11,253,055	15,361,160	15,112,818	26,517,125	26,365,873	
Net position, ending	<u>\$ 10,848,068</u>	<u>\$ 11,155,965</u>	<u>\$ 15,716,680</u>	<u>\$ 15,361,160</u>	<u>\$ 26,564,748</u>	<u>\$ 26,517,125</u>	

**Governmental activities.** The City's net position decreased due to governmental activities by \$307,897. This decrease can be attributed to various capital projects that were in process during FY 2017

**Business-type activities:** Business-type activities increased the City of Brevard's net position by \$355,520. This increase can be attributed to revenue increases generated by reducing the minimum gallon threshold from 1,000 to 500 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 \$2,820,002, while total fund balance reached \$5,582,797. 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 46% of general fund budgeted expenditures, and total fund balance represents 67% of the same amount. .

At June 30, 2017, the governmental funds of City of Brevard reported a combined fund balance of \$5,871,538 with a net decrease of \$376,527, which results from a \$390,172 increase in the General Fund and a combined decrease of \$766,699 in the other governmental funds. The increase in the General Fund can be attributed primarily to increases sales tax revenue. The decrease in other governmental funds can be attributed to budgeted capital outlay expenditures of approximately \$835,000.

**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 \$938,131. 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, 2017, 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, 2017, totals \$41,829,238 (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 as well as projects to improve infrastructure, sidewalks, and trails in and around the downtown area.

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

**Figure 4**

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2017	2016	2017	2016	2017	2016	
Land	\$ 397,687	\$ 319,893	\$ 212,891	\$ 212,891	\$ 610,578	\$ 532,784	15%
Construction in progress	1,179,350	1,689,147	12,947,209	4,007,676	14,126,559	5,696,823	148%
Buildings and infrastructure	4,120,435	3,139,118	19,612,578	19,111,743	23,733,013	22,250,861	7%
Equipment	413,069	133,574	1,758,530	186,766	2,171,599	320,340	578%
Vehicles and motorized equipment	1,011,961	1,268,689	175,528	221,372	1,187,489	1,490,061	-20%
Total capital assets	<u>\$ 7,122,502</u>	<u>\$ 6,550,421</u>	<u>\$ 34,706,736</u>	<u>\$ 23,740,448</u>	<u>\$ 41,829,238</u>	<u>\$ 30,290,869</u>	38%

Additional information on the City's capital assets can be found in Note 5 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2017, the City of Brevard had no outstanding bonds. Debt increased for Governmental Activities by \$92,629 due to issuance of new debt of \$407,689 and principal repayment of \$315,030. For Business-Type Activities, debt increased by a net amount of \$10,526,870, 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, 2017
	June 30, 2016	Additions	Retirements	
<u>Governmental Activities</u>				
Installment contracts	\$ 957,479	\$ 407,689	\$ 315,030	\$ 1,050,138
Total	<u>\$ 957,479</u>	<u>\$ 407,689</u>	<u>\$ 315,030</u>	<u>\$ 1,050,138</u>
<u>Business-Type Activities</u>				
Installment contracts	\$ 306,354	\$ 135,545	\$ 79,508	\$ 362,391
Revolving loans	9,094,963	10,885,270	414,437	19,565,796
Total	<u>\$ 9,401,317</u>	<u>\$ 11,020,815</u>	<u>\$ 493,945</u>	<u>\$ 19,928,187</u>

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 \$57 million. The City has no bonds authorized or un-issued at June 30, 2017.

Additional information regarding the City of Brevard's long-term debt can be found in Note 9 of the Basic Financial Statements.

### 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 2017 Unemployment Rates</u>	
		<u>Number Unemployed</u>	<u>Unemployment Rate</u>
<b>Transylvania</b>	<b>14,526</b>	<b>573</b>	<b>3.9%</b>
Buncombe	136,376	4,357	3.2%
Henderson	52,790	1,871	3.5%
North Carolina	4,915,486	207,689	4.2%

*Source: NC Department of Commerce – June 2017 Not Seasonally Adjusted*

- Tourism remains a vital and growing part of the Brevard economy. Domestic tourism in Transylvania County generated an economic impact of \$94.62 million for the calendar year 2016. This was a \$5.76 million increase from 2015.

#### Transylvania County

<u>Year</u>	<u>Tourism Revenue (\$ millions)</u>	<u>% Growth (Decline)</u>
<b>2012</b>	80.92	5%
<b>2013</b>	84.26	4%
<b>2014</b>	86.41	3%
<b>2015</b>	88.86	3%
<b>2016</b>	94.62	6%

\*Source: Economic Development Partnership of North Carolina

- 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.

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>City of Brevard</b>	99.60%	99.81%	99.88%	99.93%	99.98
<b>Statewide</b>	97.29%	97.34%	97.97%	98.60%	N/A

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

- Within the City, sales tax generated from taxable sales increased 8.7% from \$1,395,935 in the fiscal year 2015-2016 to \$1,517,365 in the fiscal year 2016-2017.



## **Budget Highlights for the Fiscal Year Ending June 30, 2018**

### **General Fund**

- The general fund budget as adopted for fiscal year 2017-2018 increased from \$9,374,097 to \$9,620,107. The significant factors affecting this increase are: capital improvements and increases in appropriations necessary to maintain services.

### **Water and Sewer Fund**

- Management expects water usage in fiscal year 2017-2018 to remain consistent with fiscal year 2016-2017 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 500 to 0 gallons effective July 1, 2017 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, 2016:

#### **Detailed Residential Construction Value 2016**

New home value: City - 24 homes - \$5,514,372

New home value: County – 80 homes - \$34,134,142

Addition/Remodel Value: City - 81 homes - \$3,508,153

Addition/Remodel Value: County - 208 homes - \$15,783,507

Manufactured Homes: City - 6 homes - \$266,896

Manufactured Homes: County - 36 homes - \$1,567,967

#### **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

The number of new house permits in 2016 compared to 2015 was up 27%.

The number of new house permits in 2016 compared to 2012 was up 42%.

Total construction value in 2016 compared to 2012 was up 126%.

**Construction Values for last 5 years in the City of Brevard**

2016 - \$ 26,094,691  
2015 - \$ 23,975,307  
2014 - \$ 9,523,643  
2013 - \$ 10,608,122  
2012 - \$ 9,555,894

**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](http://www.cityofbrevard.com)

## CITY OF BREVARD, NORTH CAROLINA

Statement of Net Position  
June 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	City of Brevard ABC Board
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 4,176,756	\$ 380,508	\$ 4,557,264	\$ 309,143
Taxes receivable (net)	13,330	-	13,330	-
Accrued interest receivable on taxes	1,500	-	1,500	-
Accounts receivable (net)	115,777	436,845	552,622	-
Due from other governments	970,299	2,480,894	3,451,193	-
Due from fiduciary fund	315	-	315	-
Inventories	54,208	-	54,208	284,484
Prepaid items	21,313	14,266	35,579	11,068
Restricted cash and cash equivalents	490,834	78,175	569,009	-
Total current assets	<u>5,844,332</u>	<u>3,390,688</u>	<u>9,235,020</u>	<u>604,695</u>
Non-current assets:				
Long-term notes receivable	366,583	-	366,583	-
Capital assets:				
Land, non-depreciable improvements & construction in progress	1,577,037	13,160,100	14,737,137	-
Other capital assets, net of depreciation	5,545,465	21,546,636	27,092,101	87,500
Total non-current assets	<u>7,489,085</u>	<u>34,706,736</u>	<u>42,195,821</u>	<u>87,500</u>
Total assets	<u>13,333,417</u>	<u>38,097,424</u>	<u>51,430,841</u>	<u>692,195</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension deferrals	<u>1,086,207</u>	<u>267,683</u>	<u>1,353,890</u>	<u>46,719</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	287,820	2,222,837	2,510,657	375,925
Salaries and payroll taxes payable	148,694	17,227	165,921	-
Customer deposits	-	78,175	78,175	-
Accrued interest payable	2,600	10,800	13,400	-
Long-term liabilities:				
Net pension liability (LGERS)	1,204,576	304,829	1,509,405	49,663
Total pension liability (LEOSSA)	539,753	-	539,753	-
Due within one year	512,211	644,662	1,156,873	-
Due in more than one year	794,051	19,352,066	20,146,117	-
Total liabilities	<u>3,489,705</u>	<u>22,630,596</u>	<u>26,120,301</u>	<u>425,588</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension deferrals	<u>81,851</u>	<u>17,831</u>	<u>99,682</u>	<u>6,120</u>
<b>NET POSITION</b>				
Net investment in capital assets	6,072,364	14,778,549	20,850,913	87,500
Restricted for:				
Stabilization by State statute	2,109,571	-	2,109,571	-
Streets	133,165	-	133,165	-
Economic and physical development	86,827	-	86,827	-
Public safety	193,363	-	193,363	102,467
Perpetual maintenance	4,853	-	4,853	-
Unrestricted	2,247,925	938,131	3,186,056	117,239
Total net position	<u>\$ 10,848,068</u>	<u>\$ 15,716,680</u>	<u>\$ 26,564,748</u>	<u>\$ 307,206</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, 2017

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position				Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government			City of Brevard ABC Board	
						Governmental Activities	Business-type Activities	Total		
<b>Primary Government:</b>										
Governmental Activities:										
General government	\$ 1,833,281	\$ -	\$ -	\$ -	\$ (1,833,281)	\$ -	\$ -	\$ (1,833,281)	\$ -	-
Public safety	3,668,786	2,085	121,049	-	(3,545,652)	-	-	(3,545,652)	-	-
Public works	3,515,399	1,272,930	224,153	-	(2,018,316)	-	-	(2,018,316)	-	-
Economic and physical development	885,850	-	-	552,500	(333,350)	-	-	(333,350)	-	-
Cultural and recreation	154,564	38,556	-	-	(116,008)	-	-	(116,008)	-	-
Interest on long-term debt	22,077	-	-	-	(22,077)	-	-	(22,077)	-	-
Total Governmental Activities	10,079,957	1,313,571	345,202	552,500	(7,868,684)	-	-	(7,868,684)	-	-
<b>Business-Type Activities:</b>										
Water and sewer	4,581,634	4,937,154	-	-	-	355,520	-	355,520	-	-
Total Business-Type Activities	4,581,634	4,937,154	-	-	-	355,520	-	355,520	-	-
Total Primary Government	\$ 14,661,591	\$ 6,250,725	\$ 345,202	\$ 552,500	(7,868,684)	355,520	-	(7,513,164)	-	-
<b>Component Unit:</b>										
ABC Board	\$ 3,448,252	\$ 3,457,114	\$ -	\$ -	-	-	-	-	-	8,862
Total Component Unit	\$ 3,448,252	\$ 3,457,114	\$ -	\$ -	-	-	-	-	-	8,862
General revenues:										
Taxes:										
Property taxes, levied for general purpose						5,102,791	-	5,102,791	-	-
Sales taxes						1,517,365	-	1,517,365	-	-
Other taxes						576,145	-	576,145	-	-
Grants and contributions not restricted to a specific program						286,176	-	286,176	-	-
Unrestricted investment earnings						10,664	-	10,664	-	185
Gain on sale of capital assets						24,624	-	24,624	-	-
Miscellaneous						43,022	-	43,022	-	-
Total general revenues						7,560,787	-	7,560,787	-	185
Change in net position						(307,897)	355,520	47,623	9,047	-
Net position, beginning, as previously reported						11,246,397	15,361,160	26,607,557	298,159	-
Restatement (Notes 18 and 19)						(90,432)	-	(90,432)	-	-
Net position, beginning, as restated						11,155,965	15,361,160	26,517,125	298,159	-
Net position, ending						\$ 10,848,068	\$ 15,716,680	\$ 26,564,748	\$ 307,206	-

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

## CITY OF BREVARD, NORTH CAROLINA

## GOVERNMENTAL FUNDS

Balance Sheet

June 30, 2017

	<b>Major Fund</b>			<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Multi-Use Paths Capital Project Fund</b>	<b>Total Non-Major Funds</b>	
<b>ASSETS</b>				
Cash and cash equivalents, unrestricted	\$ 3,742,894	\$ 142,862	\$ 291,000	\$ 4,176,756
Cash and cash equivalents, restricted	313,954	-	176,880	490,834
Taxes receivable, net	13,330	-	-	13,330
Accounts receivable, net	78,890	-	7,150	86,040
Due from other governments	966,629	-	3,670	970,299
Due from other funds	650,315	-	-	650,315
Due from internal service fund	36,657	-	-	36,657
Inventories	54,208	-	-	54,208
Notes receivable	-	-	366,583	366,583
Total assets	<u>\$ 5,856,877</u>	<u>\$ 142,862</u>	<u>\$ 845,283</u>	<u>\$ 6,845,022</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 112,056	\$ 30,816	\$ 18,588	\$ 161,460
Salaries and payroll taxes payable	148,694	-	-	148,694
Due to the general fund	-	650,000	-	650,000
Total liabilities	<u>260,750</u>	<u>680,816</u>	<u>18,588</u>	<u>960,154</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes receivable, net	<u>13,330</u>	<u>-</u>	<u>-</u>	<u>13,330</u>
<b>FUND BALANCES (DEFICIT)</b>				
Nonspendable:				
Inventories	54,208	-	-	54,208
Perpetual maintenance	-	-	55,440	55,440
Restricted:				
Stabilization by State statute	1,732,491	-	377,080	2,109,571
Streets	133,165	-	-	133,165
Public safety	180,789	-	12,574	193,363
Economic and physical development	-	-	86,827	86,827
Perpetual maintenance	-	-	4,853	4,853
Committed:				
Capital projects	523,836	-	289,921	813,757
Assigned:				
Subsequent year's expenditures	138,306	-	-	138,306
Unassigned	2,820,002	(537,954)	-	2,282,048
Total fund balances (deficit)	<u>5,582,797</u>	<u>(537,954)</u>	<u>826,695</u>	<u>5,871,538</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u>\$ 5,856,877</u>	<u>\$ 142,862</u>	<u>\$ 845,283</u>	<u>\$ 6,845,022</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		\$	5,871,538
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Gross capital assets at historical cost	\$ 15,379,345		
Accumulated depreciation	<u>(8,256,843)</u>		7,122,502
Deferred outflows of resources related to pensions are not reported in the funds			1,086,207
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.			
			(133,280)
Long-term liabilities used in governmental activities are not financials uses and therefore are not reported in the funds.			
Installment obligations	\$ (1,050,138)		
Other post-employment benefits	21,313		
Net pension liability - LGERS	(1,204,576)		
Total pension liability - LEOSSA	(539,753)		
Compensated absences	<u>(256,124)</u>		(3,029,278)
Taxes and interest receivable are considered deferred inflows of resources in the funds			14,830
Deferred inflows of resources related to pensions are not reported in the funds			(81,851)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.			
			<u>(2,600)</u>
Net position of governmental activities		\$	<u><u>10,848,068</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, 2017

	Major Funds			Total Governmental Funds
	General Fund	Multi-Use Paths Capital Project Fund	Total Non- Major Funds	
<b>REVENUES</b>				
Ad valorem taxes	\$ 4,634,974	\$ -	\$ 471,672	\$ 5,106,646
Other taxes and licenses	1,552,665	-	-	1,552,665
Unrestricted intergovernmental	827,021	-	-	827,021
Restricted intergovernmental	305,038	12,500	580,164	897,702
Sales and services	1,313,571	-	-	1,313,571
Investment earnings	10,474	-	190	10,664
Miscellaneous	28,032	-	14,990	43,022
Total revenues	<u>8,671,775</u>	<u>12,500</u>	<u>1,067,016</u>	<u>9,751,291</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,741,543	-	-	1,741,543
Public safety	2,750,679	-	690,708	3,441,387
Public works	3,216,170	-	-	3,216,170
Economic and physical development	-	249,434	636,416	885,850
Cultural and recreation	102,592	-	-	102,592
Capital outlay	-	631,785	202,897	834,682
Debt service:				
Principal retirement	98,780	-	216,250	315,030
Interest and other charges	6,976	-	15,901	22,877
Total expenditures	<u>7,916,740</u>	<u>881,219</u>	<u>1,762,172</u>	<u>10,560,131</u>
Revenues over (under) expenditures	<u>755,035</u>	<u>(868,719)</u>	<u>(695,156)</u>	<u>(808,840)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	4,502	128,000	547,176	679,678
Transfers to other funds	(679,678)	-	-	(679,678)
Installment obligations issued	285,689	-	122,000	407,689
Proceeds from sale of capital assets	24,624	-	-	24,624
Total other financing sources (uses)	<u>(364,863)</u>	<u>128,000</u>	<u>669,176</u>	<u>432,313</u>
Net change in fund balance	<u>390,172</u>	<u>(740,719)</u>	<u>(25,980)</u>	<u>(376,527)</u>
Fund balances, beginning, as originally stated	5,192,625	202,765	482,915	5,878,305
Restatement (Note 18)	-	-	369,760	369,760
Fund balances, beginning, as restated	<u>5,192,625</u>	<u>202,765</u>	<u>852,675</u>	<u>6,248,065</u>
Fund balances (deficit), ending	<u>\$ 5,582,797</u>	<u>\$ (537,954)</u>	<u>\$ 826,695</u>	<u>\$ 5,871,538</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, 2017

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

Net changes in fund balances - total governmental funds	\$	(376,527)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	\$ 1,152,565	
Depreciation expense for governmental assets	<u>(580,484)</u>	572,081

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		262,575
--	--	---------

Benefit payments paid for the LEOSSA are not included on the Statement of Activities		28,420
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable tax revenues		(3,855)
------------------------------------	--	---------

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	7,017	
Pension expense - LGERS	(335,722)	
Pension expense - LEO	(46,631)	
Other postemployment benefits	<u>(6,693)</u>	(382,029)

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.

Installment obligations issued	(407,689)	
Principal payments on long-term debt	315,030	
Decrease in accrued interest payable	<u>800</u>	(91,859)

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>(316,703)</u>
Total changes in net position of governmental activities	\$	<u><u>(307,897)</u></u>

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



## 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, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 4,545,352	\$ 4,539,152	\$ 4,634,974	\$ 95,822
Other taxes and licenses	1,345,000	1,467,000	1,552,665	85,665
Unrestricted intergovernmental	780,000	791,200	827,021	35,821
Restricted intergovernmental	358,000	304,000	305,038	1,038
Sales and services	1,353,150	1,388,150	1,269,043	(119,107)
Investment earnings	5,100	5,100	10,474	5,374
Miscellaneous	6,000	30,000	28,032	(1,968)
Total revenues	<u>8,392,602</u>	<u>8,524,602</u>	<u>8,627,247</u>	<u>102,645</u>
<b>Expenditures:</b>				
Current:				
General government	1,643,097	1,818,891	1,729,543	89,348
Public safety	2,815,521	2,833,521	2,750,679	82,842
Public works	3,460,210	3,490,310	3,216,170	274,140
Cultural and recreation	101,316	116,316	102,592	13,724
Debt service:				
Principal retirement	149,136	149,136	98,780	50,356
Interest and other charges	15,100	15,100	6,976	8,124
OPEB expense:	12,000	12,000	12,000	-
Contingency	6,139	6,139	-	6,139
Total expenditures	<u>8,202,519</u>	<u>8,441,413</u>	<u>7,916,740</u>	<u>524,673</u>
Revenues over expenditures	<u>190,083</u>	<u>83,189</u>	<u>710,507</u>	<u>627,318</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	100	100	4,502	4,402
Transfers to other funds	(641,678)	(641,678)	(641,678)	-
Proceeds from issuance of installment obligations	323,995	323,995	285,689	(38,306)
Proceeds from sale of capital assets	-	24,000	24,624	624
Total other financing sources (uses)	<u>(317,583)</u>	<u>(293,583)</u>	<u>(326,863)</u>	<u>(33,280)</u>
Fund balance appropriated	<u>127,500</u>	<u>210,394</u>	<u>-</u>	<u>(210,394)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>383,644</u>	<u>\$ 383,644</u>
Fund balance, beginning			<u>4,675,317</u>	
Fund balance, ending			<u>5,058,961</u>	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Impact fees and donations			44,528	
Transfers to other funds			(38,000)	
Fund balance, beginning (Capital Reserve Fund)			<u>517,308</u>	
Fund balance, ending (Exhibit 4)			<u>\$ 5,582,797</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, 2017

	<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>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents, unrestricted	\$ 380,508	\$ -
Cash and cash equivalents, restricted	78,175	-
Accounts receivable (net)	436,845	29,737
Due from other governments	2,480,894	-
Prepaid expenses	14,266	-
Total current assets	<u>3,390,688</u>	<u>29,737</u>
Noncurrent assets:		
Capital assets:		
Land and other non-depreciable assets	13,160,100	-
Other capital assets, net of depreciation	21,546,636	-
Capital assets (net)	<u>34,706,736</u>	<u>-</u>
Total assets	<u>38,097,424</u>	<u>29,737</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension deferrals	<u>267,683</u>	<u>-</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	2,222,837	126,360
Salaries and payroll taxes payable	17,227	-
Due to the general fund	-	36,657
Customer deposits	78,175	-
Accrued interest	10,800	-
Compensated absences - current	65,963	-
Installment contracts and revolving loan, current	578,699	-
Total current liabilities	<u>2,973,701</u>	<u>163,017</u>
Noncurrent liabilities:		
Net pension liability	304,829	-
Compensated absences	2,578	-
Installment contracts and revolving loan, noncurrent	19,349,488	-
Total noncurrent liabilities	<u>19,656,895</u>	<u>-</u>
Total liabilities	<u>22,630,596</u>	<u>163,017</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferrals	<u>17,831</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	14,778,549	-
Unrestricted	938,131	(133,280)
Total net position	<u>\$ 15,716,680</u>	<u>\$ (133,280)</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, 2017

	<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>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 4,637,828	\$ 1,181,576
Water and sewer taps	31,984	-
Grant revenue	45,750	-
Other operating revenues	221,592	-
Total operating revenues	<u>4,937,154</u>	<u>1,181,576</u>
<b>OPERATING EXPENSES</b>		
Water treatment and distribution	1,290,632	-
Waste collection and treatment	1,852,738	-
Payment to general fund in lieu of taxes & admin expenses	575,000	-
Depreciation	751,149	-
Claims	-	1,063,128
Insurance premiums	-	179,518
Other operating expenses	28,258	255,633
Total operating expenses	<u>4,497,777</u>	<u>1,498,279</u>
Operating income (loss)	<u>439,377</u>	<u>(316,703)</u>
<b>NONOPERATING EXPENSES</b>		
Interest expense	(83,857)	-
Total nonoperating expenses	<u>(83,857)</u>	<u>-</u>
Change in net position	355,520	(316,703)
Total net position, beginning	<u>15,361,160</u>	<u>183,423</u>
Total net position, ending	<u>\$ 15,716,680</u>	<u>\$ (133,280)</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>\$ 355,520</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, 2017

	<b>Enterprise Fund</b>	<b>Internal Service</b>
	<b>Water and Sewer</b>	<b>Fund</b>
	<b>Fund</b>	<b>Health Insurance</b>
	<b>Fund</b>	<b>Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 4,939,797	\$ 1,170,559
Cash paid for goods and services	(2,411,319)	(1,440,201)
Cash paid to or on behalf of employees for services	(1,303,040)	-
Net cash provided (used) by operating activities	<u>1,225,438</u>	<u>(269,642)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Due to the general fund	-	36,657
Net cash provided by noncapital financing activities	<u>-</u>	<u>36,657</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(10,495,982)	-
Proceeds from issuance of debt	11,020,815	-
Due to the general fund	(1,589,276)	-
Reimbursements due from other governments	801,535	-
Principal paid on installment obligation	(493,945)	-
Interest paid on installment obligation	(89,157)	-
Net cash provided (used) by capital and related financing activities	<u>(846,010)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	379,428	(232,985)
Cash and cash equivalents, beginning of year	79,255	232,985
Cash and cash equivalents, end of year	<u>\$ 458,683</u>	<u>\$ -</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	<u>\$ 439,377</u>	<u>\$ (316,703)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	751,149	-
Changes in assets and liabilities:		
Accounts receivable	3,723	(11,017)
Prepaid expenses	(2,077)	-
Deferred outflows of resources - pensions	(190,164)	-
Accounts payable and accrued liabilities	31,312	58,078
Net pension liability	225,950	-
Deferred inflows of resources - pensions	(23,167)	-
Customer deposits	(1,080)	-
Accrued vacation	(9,585)	-
Total adjustments	<u>786,061</u>	<u>47,061</u>
Net cash provided (used) by operating activities	<u>\$ 1,225,438</u>	<u>\$ (269,642)</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, 2017

	<u>OPEB Reserve Fund</u>	<u>T.L. Scruggs Scholarship Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents, restricted	\$ 194,057	\$ 23,704
<b>LIABILITIES</b>		
Due to general fund	\$ -	\$ 315
<b>NET POSITION</b>		
Assets held for retiree health benefits	194,057	-
Assets held for administration of scholarship fund	-	23,389
	<u>\$ 194,057</u>	<u>\$ 23,389</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, 2017

	<u>OPEB Reserve Fund</u>	<u>T.L. Scruggs Scholarship Fund</u>
<b>ADDITIONS</b>		
Employer contributions	\$ 18,750	\$ -
Restricted donations	-	17,245
	<u>18,750</u>	<u>17,245</u>
Investment income		
Interest	39	2
Total additions	<u>18,789</u>	<u>17,247</u>
<b>DEDUCTIONS</b>		
Expenditures	-	7,114
Scholarships awarded	-	400
Total deductions	<u>-</u>	<u>7,514</u>
Change in net position	18,789	9,733
Net position, beginning	175,268	13,656
Net position, ending	<u>\$ 194,057</u>	<u>\$ 23,389</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, 2017

#### 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.

**Multi-Use Path 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 four 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. The Housing Trust Fund accumulates loan repayments made to the City as a result of affordable housing grants obtained by the City and loaned to the Developers of two different housing complexes.

**Capital Projects Funds.** Capital projects funds account for the acquisition and construction of major capital facilities (other than those financed by the proprietary fund). The City has two non-major capital project funds: the Downtown Master Plan Project Fund and the Rosenwald Revitalization 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 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 also 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, the Multi-Use Paths Capital Project Fund, the Rosenwald Revitalization Capital Project Fund, the Downtown Master Plan Capital Project Fund, and the Water and Sewer Fund. All annual appropriations lapse at the fiscal-year end. A project ordinance is adopted for 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 fund. 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 NCCMT Government 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 forfeiture funds, fire district funds, and emergency telephone system funds for Public Safety are classified as restricted assets for the governmental activities 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	\$ 133,165
Public safety	180,789
Fire District Fund	
Public safety	20,577
Heart of Brevard Municipal Service District Fund	
Economic and physical development	3,849
Emergency Telephone System Fund	
Public safety	5,334
Housing Trust Capital Project fund	
Economic and physical development	86,827
Bjerg Trust Fund	
Perpetual maintenance	<u>60,293</u>
Total governmental activities	<u>490,834</u>

Business-type activities:

Water and Sewer Fund	
Customer deposits	<u>78,175</u>
Total business-type activities	<u>78,175</u>

Total Restricted Cash	<u><u>\$ 569,009</u></u>
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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, 2016.

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

Capital assets 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, pension deferrals for the 2017 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 meets the criterion for this category – property taxes receivable and pension deferrals.

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 economic development – portion of fund balance that is restricted to use on affordable housing per terms of grant agreements.

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 as well as portion of capital project fund balance that represents funds contributed by the City for certain projects.

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. Defined Benefit Cost-Sharing Plans

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 – Stewardship, Compliance, and Accountability

### 1. Deficit Fund Balance in Multi-Use Paths Capital Project Fund

The Multi-Use Paths Capital Project Fund has a deficit fund balance of (\$537,954) as of June 30, 2017. The primary reason for the deficit is a \$650,000 interfund loan due from the project fund to the General Fund. An ordinance has been adopted requiring the project fund to pay back the General Fund in annual installments of \$45,000 per year through fiscal year ending June 30, 2032. The City Council has authorized a property tax increase that will be designated to repay the General Fund.

### 2. Excess of Expenditures over Financial Plan

For the fiscal year ended June 30, 2017, the expenditures made in the City's Insurance Internal Service Fund exceeded the financial plan authorized by the governing board by \$70,044. This over-expenditure occurred because of a larger than expected accrual of claims incurred but not paid as of June 30, 2017. Management and the Board will more closely review the financial plan to actual reports as well as reports of unpaid claims to ensure compliance with the financial plan in future years.

## Note 3 – Cash and Investments

### 1. Deposits

All the deposits of the City and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the ABC Board, these deposits are considered to be held by the City's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City and the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2017, the City's deposits had a carrying amount of \$2,670,248 and a bank balance of \$2,735,004. Of the bank balance, \$324,971 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 \$309,143 and the bank balance was \$281,012. 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, 2017 in the amount of \$650.

## 2. Investments

At June 30, 2017, the City of Brevard had funds with a carrying amount and bank balance of \$2,673,136 invested with the North Carolina Capital Management Trust's Government 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, 2017, 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	\$ 2,670,248
Petty cash	650
Fair value of investments	<u>2,673,136</u>
	<u>\$ 5,344,034</u>
Statement of Net Position	
Cash and cash equivalents	\$ 4,557,264
Cash and cash equivalents, restricted	<u>569,009</u>
	5,126,273
Statement of Fiduciary Net Position	
Cash and cash equivalents, restricted	<u>217,761</u>
	<u>\$ 5,344,034</u>

**Note 4 – 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, 2017 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		800

## Water and Sewer Fund

Allowance for uncollectible water and sewer services receivable	\$	4,300
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**Note 5 – Capital Assets**

Capital asset activity for the Primary Government for the year ended June 30, 2017, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 319,893	\$ 77,794	\$ -	\$ 397,687
Construction in progress	1,689,147	1,586,957	2,096,754	1,179,350
Total capital assets not being depreciated	<u>2,009,040</u>	<u>1,664,751</u>	<u>2,096,754</u>	<u>1,577,037</u>
<b>Capital assets being depreciated:</b>				
Buildings and infrastructure	5,366,634	1,131,186	-	6,497,820
Equipment	1,169,240	338,097	-	1,507,337
Vehicles and motorized equipment	5,759,582	115,285	77,716	5,797,151
Total capital assets being depreciated	<u>12,295,456</u>	<u>1,584,568</u>	<u>77,716</u>	<u>13,802,308</u>
<b>Less accumulated depreciation for:</b>				
Buildings and infrastructure	2,227,516	149,869	-	2,377,385
Equipment	1,035,666	58,602	-	1,094,268
Vehicles and motorized equipment	4,490,893	372,013	77,716	4,785,190
Total accumulated depreciation	<u>7,754,075</u>	<u>580,484</u>	<u>77,716</u>	<u>8,256,843</u>
Total capital assets being depreciated, net	<u>4,541,381</u>			<u>5,545,465</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 6,550,421</u>			<u>\$ 7,122,502</u>

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

General government	\$ 87,503
Public safety	325,913
Public works	115,096
Cultural and recreational	51,972
Total depreciation expense	<u>\$ 580,484</u>

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<i>Water and Sewer Fund</i>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 212,891	\$ -	\$ -	\$ 212,891
Construction in progress	4,007,676	10,976,535	2,037,002	12,947,209
Total capital assets not being depreciated	<u>4,220,567</u>	<u>10,976,535</u>	<u>2,037,002</u>	<u>13,160,100</u>
<b>Capital assets being depreciated:</b>				
Plant and distribution systems	27,740,366	932,553	-	28,672,919
Maintenance equipment and furniture	850,356	1,845,351	-	2,695,707
Vehicles	1,026,479	-	-	1,026,479
Total capital assets being depreciated	<u>29,617,201</u>	<u>2,777,904</u>	<u>-</u>	<u>32,395,105</u>
<b>Less accumulated depreciation for:</b>				
Plant and distribution systems	8,628,623	431,718	-	9,060,341
Maintenance equipment and furniture	663,590	273,587	-	937,177
Vehicles	805,107	45,844	-	850,951
Total accumulated depreciation	<u>10,097,320</u>	<u>751,149</u>	<u>-</u>	<u>10,848,469</u>
Total capital assets being depreciated, net	<u>19,519,881</u>			<u>21,546,636</u>
<b>Water and sewer fund capital assets, net</b>	<u>\$ 23,740,448</u>			<u>\$ 34,706,736</u>

**Construction commitments:**

The government has the following commitments with contractors for active construction projects as of June 30, 2017:

Project	Spent-to-Date	Remaining Commitment
Neely Road pump station, force main	\$ 10,335,638	\$ 2,626,557
Kings Creek sewer project phase II	972,748	432,452
Kings Creek sewer project phase III	1,160,271	272,804
Kings Creek Bridge (Railroad Ave.)	169,650	85,072
West Loop Project	151,335	17,494
	<u>\$ 12,789,642</u>	<u>\$ 3,434,379</u>

**Discretely presented component unit:**

Activity for the ABC Board for the year ended June 30, 2017 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets being depreciated:</b>				
Leasehold improvements	\$ 120,789	\$ -	\$ -	\$ 120,789
Furniture and equipment	129,999	4,679	-	134,678
Vehicle	11,979	-	-	11,979
Total capital assets being depreciated	<u>262,767</u>	<u>4,679</u>	<u>-</u>	<u>267,446</u>
<b>Less accumulated depreciation</b>	<u>160,728</u>	<u>19,218</u>	<u>-</u>	<u>179,946</u>
<b>Total capital assets being depreciated, net</b>	<u>\$ 102,039</u>			<u>\$ 87,500</u>

**Note 6 – Pension Plan and Postemployment Obligations**Local 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](http://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, 2017, was 8.0% of compensation for law enforcement officers and 7.34% 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 \$328,218 for the year ended June 30, 2017.

*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, 2017, the City reported a liability of \$1,509,405 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the City's proportion was 0.07112%, which was a decrease of 0.00625% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$413,984. At June 30, 2017, 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	\$ 28,359	\$ 52,891
Changes of assumptions	103,381	-
Net difference between projected and actual earnings on pension plan investments	834,511	-
Changes in proportion and differences between City contributions and proportionate share of contributions	31,001	35,404
City contributions subsequent to the measurement date	328,218	-
Total	<u>\$ 1,325,470</u>	<u>\$ 88,295</u>

\$328,218 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, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	143,513
2019	143,525
2020	390,048
2021	231,871
2022	-
Thereafter	-
	\$ 908,957

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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:

	<u>1% Decrease ( 6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
City’s Proportionate share of the net Pension liability (asset)	\$ 3,582,521	\$ 1,509,405	\$ (222,217)

*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 of Brevard administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the City’s qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the 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 (valuation date), 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 criteria that are outlined in GASB Statement 73.

## 3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2015, valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

## 4. Contributions

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The City paid \$58,897 as benefits came due for the reporting period.

## 5. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2017, the City reported a total pension liability of \$539,753. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the City recognized pension expense of \$46,631.



	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	11,387
City contributions subsequent to the measurement date	28,420	-
Total	<u>\$ 28,420</u>	<u>\$ 11,387</u>

\$28,420 reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ (2,301)
2019	(2,301)
2020	(2,301)
2021	(2,301)
2022	(2,183)
Thereafter	-
	<u>\$ (11,387)</u>

Sensitivity of the City's total pension liability to changes in the discount rate. The following presents the City's total pension liability calculated using the discount rate of 3.86 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total pension liability	\$ 588,772	\$ 539,753	\$ 495,709

	2017
Beginning balance	\$ 563,585
Service cost	29,666
Interest on the pension liability	19,069
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Change of assumption or other inputs	(13,688)
Benefit payments	(58,879)
Other changes	-
Ending balance of the total pension liability	<u>\$ 539,753</u>

The plan currently uses mortality tables that vary by age, 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014

*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. The City made contributions of \$59,061 for the reporting year. No amounts were forfeited.

*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](http://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, 2016, the State contributed \$13,900,000 to the plan. The City of Brevard's proportionate share of the State's contribution is \$12,675.

*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, 2017, 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 \$33,501. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016 and at June 30, 2015 was 0%.

For the year ended June 30, 2017, the City recognized pension expense of \$12,675 and revenue of \$12,675 for support provided by the State. At June 30, 2017, 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	3.5 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	<u>66</u>	<u>24</u>
Total	<u><u>66</u></u>	<u><u>27</u></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 approximately \$11,000 in premiums for the year ended June 30, 2017.

The current annual required contribution rate (ARC) is .55% of annual covered payroll. The City obtains healthcare coverage through private insurers. The City’s contributions totaled \$18,750 in fiscal year 2017. 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)	(1,608)
Adjustment to annual required contribution	<u>1,536</u>
Annual OPEB cost	23,366
Contributions made	<u>(18,750)</u>
Decrease in net OPEB asset	4,616
Net OPEB (asset), beginning of year	<u>(40,195)</u>
Net OPEB (asset), end of fiscal year	<u>\$ (35,579)</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, 2017 were as follows:

For Year Ended June 30	3 Year Trend Information		Net OPEB (Asset) Obligation
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	
2017	\$ 23,366	80%	\$ (35,579)
2016	23,643	79%	(40,195)
2015	22,662	69%	(45,088)

*Funded Status and Funding Progress.* As of December 31, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$243,050 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$243,050. 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 5.7 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 7 – Deferred Outflows and Inflows of Resources**

The City has several deferred outflows of resources. Deferred outflows of resources comprises the following:

Source	Amount
Contributions to the pension plan in the current fiscal year	\$ 328,218
Benefit payments made for LEOSSA	28,420
Differences between expected and actual experience (pension)	28,359
Changes in assumptions (pension)	103,381
Net differences between projected and actual earnings on pension plan investments	834,511
Changes in proportion and differences between employer contributions and proportionate share of contributions (pension)	31,001
	<u>\$ 1,353,890</u>

Deferred inflows of resources at year end comprises the following:

Source	Statement of Net Position	General Fund Balance Sheet
Taxes receivable, less penalties (General Fund)	\$ -	\$ 13,330
Differences between expected and actual experience (pension)	52,891	-
Changes in proportion and differences between employer contributions and proportionate share of contributions (pension)	35,404	-
Changes of assumptions and other inputs (LEOSSA)	11,387	-
	<u>\$ 99,682</u>	<u>\$ 13,330</u>

**Note 8 – 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 9 – 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.

In August 2016, the City entered into an installment purchase contract for \$122,000 for the purchase of fire extrication equipment. The financing agreement requires monthly payments of \$2,126, including interest at 1.74% through August 2021.

In April 2017, the City entered in to an installment purchase contract for \$421,234 to finance equipment for sanitation, streets, sewer collections, park management, and waste water treatment. The financing agreement requires monthly payments of \$7,376, including interest at 1.96% per annum through April 2022.

The future minimum payments of the installment purchases as of June 30, 2017 are as follows:

Year ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 350,438	\$ 13,120	\$ 363,558	\$ 63,526	\$ 6,899	\$ 70,425
2019	236,350	7,263	243,613	52,424	5,768	58,192
2020	190,556	4,008	194,564	53,542	3,451	56,993
2021	128,036	2,611	130,647	54,685	2,806	57,491
2022	90,903	1,695	92,598	61,185	2,146	63,331
2023-2025	53,855	59	53,914	77,029	2,372	79,401
	<u>\$1,050,138</u>	<u>\$ 28,756</u>	<u>\$1,078,894</u>	<u>\$ 362,391</u>	<u>\$ 23,442</u>	<u>\$ 385,833</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 and estimated \$1,496,550 with a term of 20 years at 0% interest. The loan was for replacement of 3,484 manual-read meters with radio-read meters. Beginning in May 2017, the City is required to make annual principal payments of \$74,828 through May 2036.

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 \$921,974 related to this loan as of June 30, 2017. 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 \$1,092,716 related to this loan as of June 30, 2017. 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 \$10,729,286 related to this loan as of June 30, 2017. The payment terms will not be defined until the project is completed.



The future minimum payments of the revolving loans as of June 30, 2017 are as follows:

Year ending June 30	Business-type Activities		
	Principal	Interest	Total
2018	\$ 515,173	\$ 64,948	\$ 580,121
2019	1,051,637	258,185	1,309,822
2020	1,051,637	244,131	1,295,768
2021	1,051,637	230,077	1,281,714
2022	1,051,637	216,024	1,267,661
2023-2027	5,258,184	336,289	5,594,473
2028-2032	5,043,943	187,626	5,231,569
2033-2037	4,541,948	96,518	4,638,466
	<u>\$ 19,565,796</u>	<u>\$ 1,633,798</u>	<u>\$ 21,199,594</u>

In addition to the minimum payments noted above, the City expects to incur approximately \$3,800,000 in additional federal revolving loan debt for projects that were already in process at June 30, 2017. 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, 2017. 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

	As restated			June 30, 2017	Current Portion
	July 1, 2016	Increase	Decrease		
Governmental Activities:					
Installment contracts	\$ 957,479	\$ 407,689	\$ 315,030	\$ 1,050,138	\$ 350,438
Total pension liability (LEO)	563,585	-	23,832	539,753	-
Net pension obligation (LGERS)	268,353	936,223	-	1,204,576	-
Compensated absences	263,141	159,780	166,797	256,124	161,773
Governmental activity long-term liabilities	<u>\$ 2,052,558</u>	<u>\$ 1,503,692</u>	<u>\$ 505,659</u>	<u>\$ 3,050,591</u>	<u>\$ 512,211</u>
Business-type Activities					
Installment contracts	\$ 306,354	\$ 135,545	\$ 79,508	\$ 362,391	\$ 63,526
Revolving loans	9,094,963	10,885,270	414,437	19,565,796	515,173
Net pension obligation (LGERS)	78,879	225,950	-	304,829	-
Compensated absences	78,126	56,378	65,963	68,541	65,963
Business-type activity long-term liabilities	<u>\$ 9,558,322</u>	<u>\$11,303,143</u>	<u>\$ 559,908</u>	<u>\$20,301,557</u>	<u>\$ 644,662</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, 2017, the City's legal debt margin was approximately \$57,500,000.

**Note 10 – Interfund Balances and Activity***A. Balances Due to/from Other Funds*

The composition of interfund balances as of June 30, 2017 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund for reimbursement of expenses paid by the General Fund	T.L. Scruggs Scholarship Fund	\$ 315
General Fund for reimbursement of expenses paid by the General Fund	Internal Service Fund	36,656
General Fund for the Probart Street sidewalk project	Multi-Use Path Capital Project Fund	650,000

*B. Transfers to/from Other Funds*

From the General Fund to the Special Fire District Fund for use in operations of the fire department	\$ 371,678
From the General Fund to the Downtown Master Plan Fund for use in downtown capital projects	180,000
From the General Fund to the Multi-Use Paths Capital Project Fund for use in construction of greenways around the City	90,000
From the Heart of Brevard Special Service District Fund to the General Fund to return unused funds	(4,502)
From the Capital Reserve Fund to the Multi-Use Path Capital Project Fund for use in capital projects	38,000

**Note 11 – Net Investment in Capital Assets**

The net investment in capital assets as of June 30, 2017 is calculated as follows:

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 7,122,502	\$ 34,706,736
Less: Long-term debt	1,050,138	19,928,187
Net investment in capital assets	<u>\$ 6,072,364</u>	<u>\$ 14,778,549</u>

**Note 12 – 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	\$ 5,582,797
Less:	
Restricted for:	
Stablization by State statute	1,732,491
Public safety	180,789
Streets - Powell Bill	133,165
Committed:	
Capital projects	523,836
Assigned:	
Appropriated fund balance in 2018 budget	138,306
Minimum fund balance policy	<u>2,532,424</u>
Remaining fund balance	<u><u>\$ 341,786</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 City had no outstanding encumbrances related to purchase orders and contracts that remained unperformed at year-end.

**Note 13 – 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 14 – 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 15 – Related Party Transactions**

The City purchased approximately \$25,500 of goods during the year from Harris Hardware and Farm Supply, Inc., which is operated by Mayor Jimmy Harris.

**Note 16 – Summary Disclosure of Significant Contingencies**Federal 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 17 – Subsequent Events**

On August 22, 2017, the City accepted a FEMA Grant in the amount of \$265,715 for the purchase of air packs for the Brevard Fire Department.

On October 16, 2017, the City agreed to purchase property from Comporium on Railroad Avenue for the purpose of extending the Estatoe Trail from McLean Street to Whitmire Street. The purchase price was \$75,000 for approximately one acre.

On October 16, 2017, the City approved the equipment purchase for air packs totaling \$313,750 from Rhinehart Fire Services.

During the months of August, September and October 2017, the City completed approximately \$800,000 in street paving projects.

**Note 18 – Prior Period Adjustment/Correction of Error**

During the fiscal year, it was determined that two long-term note receivables had not been recorded in the Housing Trust Fund. These loans were provided to Developers by the City using Community Development Block Grants funds for the construction of affordable housing units. The resulting adjustment increased beginning fund balance of the Housing Trust Fund and beginning net position of governmental activities by \$369,760.

**Note 19 – Change in Accounting Principle/Restatement**

The City implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the City to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the City to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$460,192. When combined with the error correction described in Note 18, the net adjustment to beginning net position of governmental activities was a decrease of \$90,432.

**REQUIRED SUPPLEMENTAL FINANCIAL DATA**

**CITY OF BREVARD, NORTH CAROLINA**

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION**

<b>Schedule of Changes in Total Pension Liability</b>	
	2017*
Beginning balance	\$ 563,585
Service cost	29,666
Interest on the total pension liability	19,069
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Change of assumptions or other inputs	(13,688)
Benefit payments	(58,879)
Other changes	-
Ending balance of the total pension liability	<u>\$ 539,753</u>

<b>Schedule of Total Pension Liability as a Percentage of Covered Payroll</b>	
Total pension liability	\$ 539,753
Covered payroll	1,192,033
Total pension liability as a percentage of covered payroll	45.28%

Notes to the schedules:

The City of Brevard has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

**CITY OF BREVARD, NORTH CAROLINA**

**OTHER POSTEMPLOYMENT BENEFITS  
REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress and Schedule of Employer Contributions

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**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	\$ -	\$ 201,789	\$ 201,789	0.0%	\$ 3,720,810	5.4%
12/31/10	-	178,002	178,002	0.0%	3,732,626	4.8%
12/31/11	-	201,941	201,941	0.0%	3,658,400	5.5%
12/31/14	-	243,050	243,050	0.0%	4,274,450	5.7%

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**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%
2017	23,438	80%

**CITY OF BREVARD, NORTH CAROLINA**

CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
 REQUIRED SUPPLEMENTARY INFORMATION  
 LAST FOUR FISCAL YEARS \*

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportionate share of the net pension liability (asset) (%)	0.07112%	0.07737%	0.07524%	0.07280%
City's proportion of the net pension liability (asset) (\$)	\$ 1,509,405	\$ 347,232	\$ (443,725)	\$ 877,520
City's covered payroll	4,312,361	4,405,582	4,477,284	4,548,986
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	35.00%	7.88%	9.91%	19.29%
Plan fiduciary net position as a percentage of the total pension liability **	91.47%	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 FOUR FISCAL YEARS**

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 328,218	\$ 296,217	\$ 315,304	\$ 319,008
Contribution in relation to the contractually required contribution	<u>328,218</u>	<u>296,217</u>	<u>315,304</u>	<u>319,008</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 4,365,405	\$ 4,312,361	\$ 4,405,582	\$ 4,477,284
Contributions as a percentage of covered payroll	7.52%	6.87%	7.16%	7.13%

**CITY OF BREVARD, NORTH CAROLINA**

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

Firefighters' and Rescue Squad Workers' Pension

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportionate share of the net pension liability (asset) (%)	0.00000%	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>33,501</u>	<u>32,874</u>	<u>25,311</u>
Total	<u>\$ 33,501</u>	<u>\$ 32,874</u>	<u>\$ 25,311</u>
City's covered payroll	\$ 281,616	\$ 256,786	\$ 209,861
City's proportionate share of the net pension liability as a percentage of its covered payroll	11.90%	12.80%	12.06%
Plan fiduciary net position as a percentage of the total pension liability	89.94%	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, 2017

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Ad Valorem Taxes:			
Current year	\$ 4,520,652	\$ 4,636,577	\$ 115,925
Prior years	10,000	5,365	(4,635)
Penalties and interest	11,000	11,230	230
Refunds paid on ad valorem tax	(2,500)	(18,198)	(15,698)
	<u>4,539,152</u>	<u>4,634,974</u>	<u>95,822</u>
Other Taxes and Licenses:			
Local option sales tax	1,435,000	1,517,365	82,365
Zoning administration	32,000	35,300	3,300
	<u>1,467,000</u>	<u>1,552,665</u>	<u>85,665</u>
Unrestricted Intergovernmental Revenues:			
Utilities sales tax	555,000	540,257	(14,743)
Beer and wine taxes	30,000	35,888	5,888
Video franchise fees	45,000	47,054	2,054
City of Brevard ABC Board	150,000	192,076	42,076
Payments in lieu of taxes	6,200	6,437	237
Solid waste disposal tax	5,000	5,309	309
	<u>791,200</u>	<u>827,021</u>	<u>35,821</u>
Restricted Intergovernmental Revenues:			
Powell Bill allocation	222,000	224,153	2,153
City narcotics investigation	55,000	54,301	(699)
Court facilities fees	2,500	2,084	(416)
Police grant	24,500	24,500	-
	<u>304,000</u>	<u>305,038</u>	<u>1,038</u>
Sales and Services:			
Recycling revenue	165,000	170,059	5,059
Rents	30,000	29,766	(234)
Parking violation penalties	1,500	2,085	585
Recreation revenues	15,000	6,842	(8,158)
Refuse collection fees	742,000	731,916	(10,084)
Vehicle maintenance	431,650	326,427	(105,223)
Concessions	3,000	1,948	(1,052)
	<u>1,388,150</u>	<u>1,269,043</u>	<u>(119,107)</u>
Investment earnings	5,100	10,474	5,374
Miscellaneous revenue	30,000	28,032	(1,968)
Total revenues	<u>8,524,602</u>	<u>8,627,247</u>	<u>102,645</u>
<b>Expenditures</b>			
General Government:			
Governing Body:			
Salaries and employee benefits		36,079	
Other operating expenses		40,353	
	97,968	76,432	21,536
Administration:			
Salaries and employee benefits		557,048	
Other operating expenses		140,128	
Capital outlay		81,818	
Allocation to utility fund		(287,500)	
	522,853	491,494	31,359

**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, 2017

	Final Budget	Actual	Variance Positive (Negative)
Finance:			
Salaries and employee benefits		286,151	
Other operating expenses		482,960	
Allocation to utility fund		(287,500)	
	<u>495,791</u>	<u>481,611</u>	14,180
Legal:			
Other operating expenses	63,000	<u>57,058</u>	5,942
Planning:			
Salaries and employee benefits		316,925	
Other operating expenses		233,523	
	<u>566,779</u>	<u>550,448</u>	16,331
Special Appropriations:			
Arts Council		10,000	
Chamber of Commerce		3,000	
Heart of Brevard		30,000	
Fireworks Participation		2,500	
Bread of Life		5,000	
Brevard Music Center		5,000	
Farmers market		17,000	
	<u>72,500</u>	<u>72,500</u>	-
Total General Government	<u>1,818,891</u>	<u>1,729,543</u>	89,348
Public Safety:			
Police:			
Salaries and employee benefits		2,205,088	
Other operating expenses		430,306	
Capital outlay		115,285	
Total Public Safety	2,833,521	<u>2,750,679</u>	82,842
Public Works:			
Administration:			
Salaries and employee benefits		296,228	
Other operating expenses		76,437	
	387,992	<u>372,665</u>	15,327
Central Maintenance:			
Salaries and employee benefits		136,819	
Other operating expenses		288,206	
Capital outlay		8,387	
	536,030	<u>433,412</u>	102,618
Streets:			
Salaries and employee benefits		362,245	
Other operating expenses		250,100	
	695,988	<u>612,345</u>	83,643
Powell Aid:			
Other operating expenses		223,504	
	227,100	<u>223,504</u>	3,596

**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, 2017

	Final Budget	Actual	Variance Positive (Negative)
Building and Grounds:			
Salaries and employee benefits		379,953	
Other operating expenses		244,555	
Capital outlay		27,900	
	<u>680,423</u>	<u>652,408</u>	<u>28,015</u>
Sanitation:			
Salaries and employee benefits		413,249	
Other operating expenses		369,597	
Capital outlay		138,990	
	<u>962,777</u>	<u>921,836</u>	<u>40,941</u>
Total Public Works	<u>3,490,310</u>	<u>3,216,170</u>	<u>274,140</u>
Cultural and Recreation:			
Recreation Department:			
Salaries and employee benefits		24,279	
Other operating expenses		78,313	
Total Culture and Recreation	<u>116,316</u>	<u>102,592</u>	<u>13,724</u>
Debt Service:			
Principal retirement		98,780	
Interest		6,976	
Total Debt Service	<u>164,236</u>	<u>105,756</u>	<u>58,480</u>
OPEB Expense:	<u>12,000</u>	<u>12,000</u>	<u>-</u>
Contingency:	<u>6,139</u>	<u>-</u>	<u>6,139</u>
Total expenditures	<u>8,441,413</u>	<u>7,916,740</u>	<u>524,673</u>
Revenues over expenditures	<u>83,189</u>	<u>710,507</u>	<u>627,318</u>
Other Financing Sources (Uses):			
Operating transfers (to) from other funds:			
Heart of Brevard Special Service District	-	4,502	4,502
Fire District Fund	(371,678)	(371,678)	-
Downtown Master Plan Capital Project Fund	(180,000)	(180,000)	-
Multi-use Path Capital Project Fund	(90,000)	(90,000)	-
BJERG Trust	100	-	(100)
Installment obligations issued	323,995	285,689	(38,306)
Proceeds from sale of capital assets	24,000	24,624	624
Total other financing sources (uses)	<u>(293,583)</u>	<u>(326,863)</u>	<u>(33,280)</u>
Fund balance appropriated	<u>210,394</u>	<u>-</u>	<u>(210,394)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>383,644</u>	<u>\$ 383,644</u>
Fund balance, beginning of year		<u>4,675,317</u>	
Fund balance, end of year		<u>\$ 5,058,961</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, 2017

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Impact fees - water and sewer	\$ 20,000	\$ 32,328	\$ 12,328
Fees in lieu of infrastructure	-	12,200	12,200
Investment earnings	-	-	-
Total revenues	<u>20,000</u>	<u>44,528</u>	<u>24,528</u>
Expenditures:			
Contingency	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Revenues over expenditures	<u>-</u>	<u>44,528</u>	<u>44,528</u>
Other Financing Sources (Uses):			
Fund balance appropriated	38,000	-	(38,000)
Transfer to Multi-Use Path Capital Project Fund	<u>(38,000)</u>	<u>(38,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>(38,000)</u>	<u>(38,000)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>6,528</u>	<u>\$ 6,528</u>
Fund balance, beginning of year		<u>517,308</u>	
Fund balance, end of year		<u>\$ 523,836</u>	
Fund balance committed for:			
Streets and sidewalks		\$ 77,306	
Water and sewer projects		<u>446,530</u>	
		<u>\$ 523,836</u>	

**CITY OF BREVARD, NORTH CAROLINA**

**MULTI-USE PATH CAPITAL PROJECT FUND**

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

For the year ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Restricted intergovernmental	\$ 25,000	\$ 12,500	\$ (12,500)
Expenditures:			
West loop phase I	75,000	25,220	49,780
Paths, sidewalks, and signage	953,000	794,313	158,687
Railroad avenue project	75,000	61,686	13,314
Total expenditures	1,103,000	881,219	221,781
Revenues under expenditures	(1,078,000)	(868,719)	209,281
Other Financing Sources:			
Fund balance appropriated	950,000	-	(950,000)
Transfers from Capital Reserve	38,000	38,000	-
Transfers from General Fund	90,000	90,000	-
Total other financing sources	1,078,000	128,000	(950,000)
Revenues and other financing sources (under) expenditures	\$ -	(740,719)	\$ (740,719)
Fund balance, beginning of year		202,765	
Fund balance (deficit), end of year		\$ (537,954)	



**CITY OF BREVARD, NORTH CAROLINA**

NONMAJOR GOVERNMENTAL FUNDS

Combining Balance Sheet

June 30, 2017

	Special Revenue				Capital Projects			Permanent		Total Nonmajor Governmental Funds
	Special Fire District Fund	Heart of Brevard Municipal Service District Fund	Emergency Telephone System Fund	Housing Trust Fund	Downtown Master Plan Project Fund	Rosenwald Revitalization Project Fund	Non-expendable Bjerg Trust Fund			
<b>ASSETS</b>										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 184,895	\$ 106,105	\$ -	\$ -	\$ 291,000	
Cash and cash equivalents, restricted	20,577	3,849	5,334	86,827	-	-	60,293	-	176,880	
Other receivables	1,650	-	-	-	5,500	-	-	-	7,150	
Due from other governments	-	323	3,347	-	-	-	-	-	3,670	
Notes receivable	-	-	-	366,583	-	-	-	-	366,583	
Total assets	\$ 22,227	\$ 4,172	\$ 8,681	\$ 453,410	\$ 190,395	\$ 106,105	\$ 60,293	\$ -	\$ 845,283	
<b>LIABILITIES</b>										
Accounts payable and accrued liabilities	\$ 12,679	\$ 4,172	\$ 658	\$ -	\$ 1,079	\$ -	\$ -	\$ -	\$ 18,588	
<b>FUND BALANCES</b>										
Nonspendable	-	-	-	-	-	-	-	55,440	55,440	
Restricted for:										
Stabilization by state statute	1,650	-	3,347	366,583	5,500	-	-	-	377,080	
Public safety	7,898	-	4,676	-	-	-	-	-	12,574	
Economic and physical development	-	-	-	86,827	-	-	-	-	86,827	
Perpetual maintenance	-	-	-	-	-	-	-	4,853	4,853	
Committed for capital projects	-	-	-	-	183,816	106,105	-	-	289,921	
Total fund balances	\$ 9,548	\$ -	\$ 8,023	\$ 453,410	\$ 189,316	\$ 106,105	\$ 60,293	\$ -	\$ 826,695	
Total liabilities and fund balances	\$ 22,227	\$ 4,172	\$ 8,681	\$ 453,410	\$ 190,395	\$ 106,105	\$ 60,293	\$ -	\$ 845,283	

**CITY OF BREVARD, NORTH CAROLINA**

NONMAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the Year Ended June 30, 2017

	Special Revenue			Capital Projects			Permanent	Total Nonmajor Governmental Funds
	Special Fire District Fund	Heart of Brevard Municipal Service District Fund	Emergency Telephone System Fund	Housing Trust Fund	Downtown Master Plan Project Fund	Rosenwald Revitalization Project Fund	Non-expendable Bjerg Trust Fund	
<b>Revenues:</b>								
Ad valorem taxes	\$ 333,594	\$ 138,078	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 471,672
Restricted intergovernmental	40,000	-	40,164	-	500,000	-	-	580,164
Investment earnings	-	-	-	100	-	-	90	190
Miscellaneous	565	-	-	3,425	11,000	-	-	14,990
Total revenues	374,159	138,078	40,164	3,525	511,000	-	90	1,067,016
<b>Expenditures:</b>								
Public safety	651,775	-	38,933	-	-	-	-	690,708
Economic and physical development	-	133,576	-	-	502,840	-	-	636,416
Capital outlay	-	-	-	-	181,095	21,802	-	202,897
Debt service:								
Principal retirement	216,250	-	-	-	-	-	-	216,250
Interest	15,901	-	-	-	-	-	-	15,901
Total expenditures	883,926	133,576	38,933	-	683,935	21,802	-	1,762,172
Revenues over (under) expenditures	(509,767)	4,502	1,231	3,525	(172,935)	(21,802)	90	(695,156)
Other Financing Sources (Uses)								
Installment obligations issued	122,000	-	-	-	-	-	-	122,000
Transfers (to)/from General fund	371,678	(4,502)	-	-	180,000	-	-	547,176
Total other financing sources (uses)	493,678	(4,502)	-	-	180,000	-	-	669,176
Net change in fund balances	(16,089)	-	1,231	3,525	7,065	(21,802)	90	(25,980)
Fund balances, beginning, as originally stated	25,637	-	6,792	80,125	182,251	127,907	60,203	482,915
Restatement (Note 18)	-	-	-	369,760	-	-	-	369,760
Fund balances, beginning, as restated	25,637	-	6,792	449,885	182,251	127,907	60,203	852,675
Fund balances, ending	\$ 9,548	\$ -	\$ 8,023	\$ 453,410	\$ 189,316	\$ 106,105	\$ 60,293	\$ 826,695

**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, 2017

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes	\$ 333,594	\$ 333,594	\$ -
Restricted intergovernmental	40,000	40,000	-
Miscellaneous	-	565	565
Total revenues	<u>373,594</u>	<u>374,159</u>	<u>565</u>
Expenditures:			
Public Safety:			
Salaries and employee benefits		310,502	
Other operating expenses		176,610	
Capital outlay		164,663	
Total public safety	<u>656,195</u>	<u>651,775</u>	<u>4,420</u>
Debt Service:			
Principal retirement		216,250	
Interest		15,901	
Total debt service	<u>236,714</u>	<u>232,151</u>	<u>4,563</u>
Total expenditures	<u>892,909</u>	<u>883,926</u>	<u>8,983</u>
Revenues under expenditures	<u>(519,315)</u>	<u>(509,767)</u>	<u>9,548</u>
Other Financing Sources:			
Fund balance appropriated	25,637	-	(25,637)
Transfer from general fund	371,678	371,678	-
Installment obligations issued	122,000	122,000	-
Total other financing sources	<u>519,315</u>	<u>493,678</u>	<u>(25,637)</u>
Revenues and other sources under expenditures	<u>\$ -</u>	<u>(16,089)</u>	<u>\$ (16,089)</u>
Fund balance, beginning of year		<u>25,637</u>	
Fund balance, end of year		<u>\$ 9,548</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, 2017

	Final Budget	<b>Actual</b>	Variance Positive (Negative)
Revenues:			
Ad valorem taxes	\$ 140,000	\$ <b>138,078</b>	\$ (1,922)
Expenditures:			
Contracted services	140,000	<b>133,576</b>	6,424
Revenues over expenditures	-	<b>4,502</b>	4,502
Other Financing Uses:			
Transfer to General Fund	-	<b>(4,502)</b>	(4,502)
Revenues over expenditures and other uses	\$ -	-	\$ -
Fund balance, beginning of year		-	
Fund balance, end of year		<b>\$ -</b>	

**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, 2017

	Final Budget	<b>Actual</b>	Variance Positive (Negative)
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues:			
Restricted intergovernmental	\$ 64,000	\$ <b>40,164</b>	\$ (23,836)
	<u>          </u>	<u>          </u>	<u>          </u>
Expenditures:			
Public safety	64,000	<b>38,933</b>	25,067
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues over expenditures	<u>          </u> \$ -	<u>          </u> <b>1,231</b>	<u>          </u> \$ 1,231
		<u>          </u>	
Fund balance, beginning of year		<u>          </u> <b>6,792</b>	
		<u>          </u>	
Fund balance, end of year		<u>          </u> <b>\$ 8,023</b>	

**CITY OF BREVARD, NORTH CAROLINA**

**HOUSING TRUST FUND**

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

For the year ended June 30, 2017

	Final Budget	<b>Actual</b>	Variance Positive (Negative)
Revenues:			
Developer loan repayment	\$ 26,600	\$ 3,425	\$ (23,175)
Investment earnings	-	<b>100</b>	100
Total revenues	<u>26,600</u>	<u><b>3,525</b></u>	<u>(23,075)</u>
Expenditures:			
Economic and physical development	<u>26,600</u>	<u>-</u>	<u>26,600</u>
Revenues over expenditures	<u>\$ -</u>	<u><b>3,525</b></u>	<u>\$ 3,525</u>
Fund balance, beginning, as originally stated		<b>80,125</b>	
Restatement (Note 18)		<u><b>369,760</b></u>	
Fund balance, beginning, as restated		<u><b>449,885</b></u>	
Fund balance, end of year		<u><b>\$ 453,410</b></u>	

**CITY OF BREVARD, NORTH CAROLINA**

**DOWNTOWN MASTER PLAN CAPITAL PROJECT FUND**

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For the year ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
CDBG Grant - Perkins project	\$ 500,000	<b>500,000</b>	\$ -
Heart of Brevard	11,000	<b>11,000</b>	-
Total revenues	<u>511,000</u>	<u><b>511,000</b></u>	<u>-</u>
Expenditures:			
Clemson Plaza and other downtown improvements	531,000	<b>180,270</b>	350,730
Caldwell Street improvements	200,000	<b>825</b>	199,175
Perkins project	500,000	<b>502,840</b>	(2,840)
Total expenses	<u>1,231,000</u>	<u><b>683,935</b></u>	<u>547,065</u>
Revenues under expenditures	<u>(720,000)</u>	<u><b>(172,935)</b></u>	<u>547,065</u>
Other Financing Sources:			
Fund balance appropriated	540,000	-	(540,000)
Transfer from General Fund	180,000	<b>180,000</b>	-
Total other financing sources	<u>720,000</u>	<u><b>180,000</b></u>	<u>(540,000)</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u><b>7,065</b></u>	<u>\$ 7,065</u>
Fund balance, beginning of year		<u><b>182,251</b></u>	
Fund balance, end of year		<u><b>\$ 189,316</b></u>	

**CITY OF BREVARD, NORTH CAROLINA**

**ROSENWALD REVITALIZATION CAPITAL PROJECT FUND**

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

For the year ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Restricted intergovernmental	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses:			
Revitalization project	<u>134,000</u>	<u>21,802</u>	<u>112,198</u>
Revenues under expenditures	<u>(134,000)</u>	<u>(21,802)</u>	<u>112,198</u>
Other Financing Sources:			
Fund balance appropriated	<u>134,000</u>	<u>-</u>	<u>(134,000)</u>
Revenues and other financing sources under expenditures	<u>\$ -</u>	<u>(21,802)</u>	<u>\$ (21,802)</u>
Fund balance, beginning of year		<u>127,907</u>	
Fund balance, end of year		<u>\$ 106,105</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, 2017

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for utilities:			
Water	\$ 2,527,000	\$ 2,479,311	\$ (47,689)
Sewer	2,245,000	2,158,517	(86,483)
Taps and connection fees:			
Water	2,500	10,806	8,306
Sewer	10,000	21,178	11,178
Grant revenue	45,750	45,750	-
Other operating revenues	196,000	221,592	25,592
<b>Total revenues</b>	<b>5,026,250</b>	<b>4,937,154</b>	<b>(89,096)</b>
Expenditures:			
Water Service:			
Water Treatment:			
Salaries and employee benefits		338,253	
Other operating expenses		400,190	
Capital outlay		238,520	
	1,007,740	976,963	30,777
Water Distribution:			
Salaries and employee benefits		242,200	
Other operating expenses		306,142	
Capital outlay		26,280	
	601,896	574,622	27,274
<b>Total water service</b>	<b>1,609,636</b>	<b>1,551,585</b>	<b>58,051</b>
Sewer Service:			
Sewage Treatment:			
Salaries and employee benefits		476,209	
Other operating expenses		775,531	
Capital outlay		372,031	
	1,682,717	1,623,771	58,946
Sewer Maintenance:			
Salaries and employee benefits		242,437	
Other operating expenses		386,053	
Capital outlay		106,710	
	971,607	735,200	236,407
<b>Total sewer service</b>	<b>2,654,324</b>	<b>2,358,971</b>	<b>295,353</b>

**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, 2017

	Final Budget	Actual	Variance Positive (Negative)
Debt Service:			
Interest and fees		89,157	
Debt principal		493,945	
Total debt service	601,739	583,102	18,637
Nondepartmental:			
Payment to general fund in lieu of taxes and administrative expenses		575,000	
OPEB expense		6,750	
Miscellaneous		23,585	
	601,750	605,335	(3,585)
Total expenditures	5,467,449	5,098,993	368,456
Revenues under expenditures	(441,199)	(161,839)	279,360
Other financing sources (uses):			
Fund balance appropriated	299,000	-	(299,000)
Installment loan proceeds	142,199	135,545	(6,654)
Transfer to capital project fund	-	(29,318)	(29,318)
Total other financing sources (uses)	441,199	106,227	(334,972)
Revenues and other sources over expenditures and other uses	\$ -	(55,612)	\$ (55,612)

Reconciliation of Budgetary Basis to Full Accrual Basis:

Reconciling items:

Revolving loan advances - Capital Project Fund	(10,885,270)
Loan proceeds	(135,545)
Payment of debt principal	493,945
Capital outlay	740,901
Construction in process - Capital Project Fund	10,976,535
Contribution to capital project fund	29,318
Net change in fund balance - Capital Project Fund	(61,947)
Increase in OPEB asset	2,077
Increase in deferred outflows of resources - pension	190,164
Increase in net pension liability	(225,950)
Decrease in deferred inflows of resources - pension	23,167
Decrease in accrued interest	5,300
Decrease in accrued vacation	9,586
Depreciation	(751,149)
Change in Net Position	\$ 355,520

**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, 2017

	<u>Actual through June 30, 2017</u>				Variance Positive (Negative)
	Project Authorization	Reported in Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:					
Kings Creek sewer phase 2	1,435,784	274,015	<b>787,955</b>	1,061,970	373,814
Kings Creek sewer phase 3	1,484,150	215,856	<b>940,096</b>	1,155,952	328,198
Neely Road tank project	13,666,000	1,863,236	<b>8,866,050</b>	10,729,286	2,936,714
Radio read meters	1,560,500	1,205,381	<b>382,434</b>	1,587,815	(27,315)
Total expenditures	<u>18,146,434</u>	<u>3,558,488</u>	<u><b>10,976,535</b></u>	<u>14,535,023</u>	<u>3,611,411</u>
Revenues under expenditures	<u>(18,146,434)</u>	<u>(3,558,488)</u>	<u><b>(10,976,535)</b></u>	<u>(14,535,023)</u>	<u>3,611,411</u>
Other Financing Sources:					
Proceeds from issuance of debt					
Clean water state revolving fund	16,585,934	2,253,309	<b>10,594,101</b>	12,847,410	(3,738,524)
Drinking water state revolving fund	1,421,722	1,073,581	<b>291,169</b>	1,364,750	(56,972)
Transfer from Water and Sewer Fund	138,778	293,545	<b>29,318</b>	322,863	184,085
	<u>18,146,434</u>	<u>3,620,435</u>	<u><b>10,914,588</b></u>	<u>14,535,023</u>	<u>(3,611,411)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 61,947</u>	<u><b>\$ (61,947)</b></u>	<u>\$ -</u>	<u>\$ -</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, 2017

	Financial Plan	Actual	Variance Positive (Negative)
Revenues:			
Charges for services	<u>\$ 1,195,250</u>	<u>\$ 1,181,576</u>	<u>\$ (13,674)</u>
Expenditures:			
Claims		<b>1,063,128</b>	
Insurance premiums		<b>179,518</b>	
Other operating expenses		<b>255,633</b>	
Total expenditures	<u>1,428,235</u>	<u>1,498,279</u>	<u>(70,044)</u>
Revenues under expenditures	<u>(232,985)</u>	<u>(316,703)</u>	<u>(83,718)</u>
Other Financing Sources:			
Appropriated fund balance	<u>232,985</u>	<u>-</u>	<u>(232,985)</u>
Total other financing sources	<u>232,985</u>	<u>-</u>	<u>(232,985)</u>
Revenues and other sources under expenditures	<u>\$ -</u>	<u>\$ (316,703)</u>	<u>\$ (316,703)</u>

**SUPPLEMENTAL FINANCIAL DATA**

**CITY OF BREVARD, NORTH CAROLINA**

GENERAL FUND

Schedule of Ad Valorem Taxes Receivable

For the year ended June 30, 2017

<u>Fiscal Year</u>	<u>Uncollected Balance 6/30/2016</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance 6/30/2017</u>
2016-2017	\$ -	\$ 4,636,721	\$ 4,630,988	\$ 5,733
2015-2016	3,320	-	1,405	1,915
2014-2015	2,869	-	1,168	1,701
2013-2014	4,449	-	1,395	3,054
2012-2013	4,100	-	1,207	2,893
2011-2012	1,525	-	11	1,514
2010-2011	2,728	-	6	2,722
2009-2010	1,147	-	-	1,147
2008-2009	1,484	-	1	1,483
2007-2008 and prior	4,063	-	1,895	2,168
	<u>\$ 25,685</u>	<u>\$ 4,636,721</u>	<u>\$ 4,638,076</u>	<u>24,330</u>
Less: allowance for uncollectible accounts:				
	General Fund			<u>(11,000)</u>
	Ad valorem taxes receivable, net			<u>\$ 13,330</u>
<u>Reconciliation with revenues:</u>				
	Ad valorem taxes - General Fund			\$ 4,634,974
	Reconciling items:			
	Releases			688
	Interest collected			(11,230)
	Refunds and other adjustments			13,644
	Total collections and credits			<u>\$ 4,638,076</u>

**CITY OF BREVARD, NORTH CAROLINA**

GENERAL FUND

Analysis of Current Tax Levy  
For the year ended June 30, 2017

	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rates	\$ 946,448,958	\$ 0.0048	\$ 4,542,955	\$ 4,312,325	\$ 230,630
Penalties			1,416	1,416	-
Total			<u>4,544,371</u>	<u>4,313,741</u>	<u>230,630</u>
Discoveries:	19,382,917		93,038	93,038	-
Abatements	<u>(143,333)</u>		<u>(688)</u>	<u>(688)</u>	-
Total property valuation	<u>\$ 965,688,542</u>				
Net levy			4,636,721	4,406,091	230,630
Uncollected taxes at June 30, 2017			<u>5,733</u>	<u>5,733</u>	-
Current year's taxes collected			<u>\$ 4,630,988</u>	<u>\$ 4,400,358</u>	<u>\$ 230,630</u>
Current levy collection percentage			<u>99.88%</u>	<u>99.87%</u>	<u>100.00%</u>

## **COMPLIANCE SECTION**





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

To the Honorable Mayor and  
Members of the City Council  
City of Brevard  
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 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, 2017, 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 November 15, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-01 to be a material weakness. We consider the deficiency described as item 2017-02 to be a significant deficiency.

#### 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 an instance of noncompliance that is required to be reported under Government Auditing Standards, which is described in the accompanying Schedule of Findings and Responses as item 2017-03.

#### City of Brevard's Responses to Findings

The City of Brevard's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### 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.

*Donald Killiam CPA Group, P.A.*

Asheville, North Carolina  
November 15, 2017



**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**

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, 2017. 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, 2017.

### 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  
November 15, 2017

CITY OF BREVARD, NORTH CAROLINA

Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2017

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? [X] yes [ ] no
Significant deficiency(s) identified that are not considered to be material weaknesses? [X] yes [ ] none reported

Noncompliance material to financial statements noted [X] yes [ ] 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, 2017 are:

Table with 2 columns: CFDA Number, Program Name. Rows include 66.458 Capitalization Grants for Clean Water State Revolving Funds and 14.228 Community Development Bock Grant.

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

The City does not qualify as a low-risk auditee.

State Awards

The only major state program for the City of Brevard was the Capitalization Grant for Clean State Water Revolving Funds (66.458), which are was a State match on a federal program. Therefore, these programs have been included in the list of major federal programs above.

## CITY OF BREVARD, NORTH CAROLINA

### Schedule of Findings and Responses For the Fiscal Year Ended June 30, 2017

#### II. Financial Statement Findings

##### **Finding 2017-01 (Material Weakness)**

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting in accordance with generally accepted accounting principles (GAAP).

**Condition:** The existence of a material prior period adjustment indicates the City's system of internal controls did not prevent or detect such errors in financial reporting.

**Context:** Management did not record two notes receivable in the Housing Trust Fund. An adjustment to beginning fund balance in the Housing Trust Fund and Governmental Activities were required in order for the City's financial statements to be fairly presented in accordance with GAAP. Previously, the City's financial statement presentation was recording the payment only when received from the developer.

**Cause:** A misunderstanding occurred of the GAAP presentation rules for this particular transaction.

**Effect:** Errors in financial reporting could occur.

**Recommendation:** Management should implement procedures to ensure all material balance sheet accounts are recorded in accordance in GAAP. A formal process should be established to review balance sheet accounts for errors throughout the year.

**Management's Response:** Management disagrees with this finding. The audited financial statements for the years ended June 30, 2012, June 30, 2013, June 30, 2014, June 30, 2015 and June 30, 2016 reflected the recording of annual developer loan payments for the Housing Trust Fund. The auditors have recommended a change for the year ended June 30, 2017 to reflect the entire developer loan amount. See the corrective action plan on page 87.

## CITY OF BREVARD, NORTH CAROLINA

### Schedule of Findings and Responses For the Fiscal Year Ended June 30, 2017

#### **Finding 2017-02 (Significant Deficiency)**

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting.

**Condition:** General ledger balances for accounts receivable related to utility billing does not agree to the billing system's schedule of amounts due from customers. This indicates an error either in the City's financial reporting software or in the process used to record Utility Fund activity in the general ledger.

**Context:** The external auditor proposed material adjustments to agree the general ledger system to the utility billing system.

**Cause:** The City does not currently perform reconciliation between the general ledger system and the underlying sub-ledger (the utility billing system).

**Effect:** Errors in financial reporting could occur.

**Recommendation:** We recommend the City implement a formal monthly process whereby the differences in accounts receivable per the general ledger are reconciled to the underlying customer account balances. Performing this monthly reconciliation should allow the City to quickly identify why the differences are occurring and take steps the errors through working with the software vendor and/or modifying internal processes as necessary.

**Management's Response:** Management agrees with this finding. See the corrective action plan on page 87.

#### **Finding 2017-03 (Reportable Non-Compliance)**

**Criteria:** NC G.S. 159-8(a) requires internal service funds of local governments to operate under a board approved annual financial plan, and all expenditures should be in strict compliance with the approved plan.

**Condition:** There were expenditures in excess of financial plan in the Health Insurance Internal Service Fund as described in Note 2 of the financial statements.

**Effect:** The City is not in compliance with North Carolina general statutes.

**Cause:** The City did not allow room in the financial plan for the year end accrual of health claims incurred as of June 30 but not paid until after year end.

**Recommendation:** The City should ensure that statutory authority exists for all expenditures, including those made as a result of standard year-end accruals required by governmental financial reporting.

**Management's Response:** Management agrees with this finding. See the corrective action plan on page 87.

### **III. Federal Awards Findings**

None reported.

**CITY OF BREVARD, NORTH CAROLINA**

Corrective Action Plan  
For the Year Ended June 30, 2017

**Finding 2017-01**

**Name of Contact Person:** Jim Fatland, City Manager and Finance Director

**Corrective Action:** Management has reviewed the auditors' recommendation for proper accounting treatment of Housing Trust Fund. Upon further analysis of GAAP presentation requirements and consultation with LGC memo guidance, management has concluded to record and present the transaction accordingly.

**Proposed Completion Date:** Immediately and ongoing

**Finding 2017-02**

**Name of Contact Person:** Jim Fatland, City Manager and Finance Director

**Corrective Action:** Management will implement a reconciliation process each month to ensure the City's general ledger system agrees to the underlying customer utility billing account records. Upon determination of the cause of the recurring differences, appropriate action will be taken to obtain any needed software fixes or implementing modifications to current City processes.

**Proposed Completion Date:** Immediately and ongoing

**Finding 2017-03**

**Name of Contact Person:** Jim Fatland, City Manager and Finance Director

**Corrective Action:** Management has and will continue to exercise due care in reviewing of budget to actual reports to ensure compliance with North Carolina General Statutes.

**Proposed Completion Date:** Immediately and ongoing



**CITY OF BREVARD, NORTH CAROLINA**

Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2017

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, 2017

	Federal CFDA Number	State/Pass-Through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
<b>Federal Awards</b>					
<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	\$ 8,475,281	\$ 2,118,820	\$ -
Drinking Water State Revolving Fund	66.468	DENR-17	232,935	58,234	-
Total Environmental Protection Agency			<u>8,708,216</u>	<u>2,177,054</u>	<u>-</u>
<u>U.S. Department of Homeland Security</u>					
Assistance to Firefighters Grant	97.044		40,000	-	-
Total U.S. Department of Homeland Security			<u>40,000</u>	<u>-</u>	<u>-</u>
<u>U.S. Department of Commerce</u>					
Passed-through the N.C Dept. of Commerce:					
Community Development Block Grant (CDBG)	14.228	15-E-2766	500,000	-	-
Total U.S. Department of Commerce			<u>500,000</u>	<u>-</u>	<u>-</u>
<u>U.S. Department of Transportation</u>					
<u>Federal Highway Administration</u>					
Passed-through the N.C Department of Transportation:					
Governor's Highway Safety Program	20.600		-	24,500	-
Total U.S. Department of Transportation			<u>-</u>	<u>24,500</u>	<u>-</u>
Total Federal Awards and State Matches			<u>9,248,216</u>	<u>2,201,554</u>	<u>-</u>
<b>State Awards</b>					
<u>N. C. Department of Transportation:</u>					
Non-State System Street-Aid (Powell Bill)		DOT-4	-	223,504	-
Total N.C. Department of Transportation			<u>-</u>	<u>223,504</u>	<u>-</u>
<u>N.C. Department of Environmental Quality</u>					
Technical Assistance Grant		E-TAG-W-15-0018	-	45,750	-
Total N.C. Department of Environmental Quality			<u>-</u>	<u>45,750</u>	<u>-</u>
Total State awards			<u>-</u>	<u>269,254</u>	<u>-</u>
Total Federal and State awards			<u>\$ 9,248,216</u>	<u>\$ 2,470,808</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, 2017. 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, 2017 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, 2017 consist of:

Program Title	CFDA Number	Pass-through	Amount Outstanding
		Grantor's Number	
Clean Water Revolving Fund	66.458	-	\$ 12,743,976
Drinking Water Revolving Fund	66.468	-	\$ 1,421,723