

**CITY OF KANNAPOLIS
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013

**MARTIN ♦ STARNES
& ASSOCIATES, CPAs, P.A.**

"A Professional Association of Certified Public Accountants and Management Consultants"

**CITY OF KANNAPOLIS
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013

Prepared By:
Finance Department

Finance Director
Eric Davis

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CITY OF KANNAPOLIS, NORTH CAROLINA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

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Introductory Section

- Letter of Transmittal
 - GFOA Certificate of Achievement for Excellence in Financial Reporting
 - Organizational Chart
 - List of Principal Officials
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KANNAPOLIS



October 31, 2013

The Honorable Mayor and
Members of the City Council
City of Kannapolis, North Carolina

The Comprehensive Annual Financial Report (CAFR) of the City of Kannapolis, North Carolina, for the fiscal year ended June 30, 2013, is hereby submitted. The financial statements were prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) and audited in accordance with generally accepted governmental auditing standards by a firm of licensed certified public accountants. We believe the data is presented in a manner designed to set forth fairly the financial position and results of operations for the City for fiscal year 2013.

This report was prepared by the Finance Department of the City of Kannapolis and consists of management's representations concerning the finances of the City of Kannapolis. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Kannapolis has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Kannapolis's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Kannapolis's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Kannapolis's financial statements have been audited by Martin Starnes & Associates, CPAs, P.A.; a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Kannapolis for the fiscal year ended June 30, 2013 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Kannapolis's financial statements for the fiscal year ended June 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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The independent audit of the financial statements of the City of Kannapolis was part of a broader, federally and state mandated "Single Audit" designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are contained in the compliance section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Kannapolis's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE CITY

The City of Kannapolis is located in the north central portion of Cabarrus County, North Carolina and south central portion of Rowan County. These Counties are located in the east central part of the Metrolina Urban Region. The City, incorporated on December 11, 1984, covers an area of approximately 31 square miles. The approximate population is 43,000 and the assessed valuation for property tax purposes of \$3,456,236,586. The City is located approximately twelve miles northeast of the City of Charlotte, North Carolina, and abuts the City of Concord, North Carolina and is one of six incorporated municipalities in Cabarrus County and one of ten incorporated municipalities in Rowan County.

The City is governed by the council-manager form of government. The seven-member non-partisan City Council, along with the Mayor, is elected at large for four-year alternating terms. The Mayor and Council members serve as the City's policy making body, adopting an annual balanced budget, establishing legislative direction for the City, and appointing various officials including a professional City Manager to serve as chief executive officer to direct the daily activities of the City's departments. The City Council makes extensive use of appointed boards and commissions in the development of policy decisions.

The City provides its citizens with a wide range of services that include law enforcement, fire protection, planning and zoning, recreation, street and storm drainage maintenance, water and sewer, a bus transit system, street lighting, traffic engineering, recyclables collection, solid waste disposal, code enforcement, and community development assistance. In addition, the City owns a 15 million gallon per day water treatment plant and water distribution lines throughout the City. The City also owns sewer collection lines throughout the City with sewage treatment being provided by the Water and Sewer Authority of Cabarrus County. This report includes all of the City's activities related to the City's services.

North Carolina General Statutes require formal budgetary accounting for all funds. The departments of the City are required to submit request for appropriations to the City Manager no later than April 30 each year. These requests are used as a starting point for developing a proposed budget. The City Manager presents the proposed budget no later than June 1. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30. Budgets are legally enacted by adoption by the governing board of an Annual Budget Ordinance or a Project Ordinance. The Annual Budget Ordinance and Project Ordinances may be formally amended as required by the governing board within the guidelines of the Local Government Budget and Fiscal Control Act. Changes of functions and total budgets of any fund require approval of the governing board. The City Manager is authorized to reallocate functional or departmental appropriations, as he considers necessary, and to affect interdepartmental transfers within a fund. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. A Project Ordinance is used to establish a budget for a project that extends over more than one fiscal year. Project length budget to actual comparisons for each governmental fund for which a project length budget has been adopted is also included in this report.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. Encumbrances outstanding at year-end are allowed to expire and must be re-appropriated by City Council in the subsequent year.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Kannapolis operates.

LOCAL ECONOMY - Kannapolis continues to enjoy a favorable economic environment and local indicators point to continued stability. The City's economy has benefited from the City's proximity to Charlotte and access to major interstate highways.

The North Carolina Research Campus "*NCRC*" is the vision of David H. Murdock who owns a diversified conglomerate of businesses, including Dole Food Company, Inc., Flexi-Van Leasing, Inc. and Castle & Cooke Building Materials, LLC. Mr. Murdock owns a significant amount of property in the City dating back to his ownership of Cannon Mills (which he sold) in the early 1980's. The NCRC is being developed largely through Castle & Cooke North Carolina, LLC, wholly-owned and managed by Castle & Cooke Holdings, Inc. and owned by Mr. Murdock. Mr. Murdock has created a multi-purpose campus that houses state-of-the-art research equipment, research space and laboratory space that brings together researchers and scientists from the public and private sector to collaborate on advancements in biotechnology, nutrition and health. Three facilities are open and operating on the NCRC, including the David H. Murdock Core Laboratory (the "*Core Lab*"), the Plants for Human Health Building and the Nutrition Research Building. The Core Lab is the centerpiece of the NCRC and houses the David H. Murdock

Research Institute as a provider of advanced research technologies to academic, government and industry scientists, including specialized high-tech equipment such as a 950-megahertz nuclear magnetic resonance spectrometer that has the highest commercially available magnetic field strength currently available in the world. Duke University is managing the M.U.R.D.O.C.K. Study (a large-scale project studying the long-term health of County citizens). The Plants for Human Health Building houses researchers and staff of Dole Foods, North Carolina State University and Appalachian State University. The Nutrition Research Building houses researchers and staff of The University of North Carolina at Chapel Hill, The University of North Carolina at Greensboro, North Carolina A&T State University and North Carolina Central University. Private sector partners include Angiogen, Anatomics, Bio-Marker group, Dole Nutrition Institute, General Mills, Monsanto, RedHat, and Sensory Spectrum. In 2012, the US Food and Drug Administration began operations on the campus. The NCRC is considered an area of approximately 283 acres located in the downtown area of the City. There are a number of additional public and private investments either completed, or planned on the NCRC in the future. First, a 60,000 square foot medical office building opened in the spring of 2013, offering medical services to patients of the Carolinas Medical Center (CMC) system. Second, in the summer of 2013, a 50,000 square foot data storage center was formalized to be built on the north end of the NCRC, with construction starting in November of 2013. These projects will continue to re-establish the aggressive development plans for the NCRC that were stalled during the now recovering downturn in the economy.

To assist with the development of the NCRC campus, the City of Kannapolis issued \$35 million in Limited Obligation Bonds in December of 2010. The proceeds of the 2010 Bonds have been used to finance numerous infrastructure projects such as water, sewer, and storm water lines, as well as various street improvements and the construction of a multi-tiered parking deck. Citizens can also see improvements such as a pedestrian tunnel that links the research campus to the City of Kannapolis' premier recreational space; Village Park. The funds were also used to construct and equip a new, state-of-the-art, 63,000 square foot public health facility located adjacent to the research campus on Dale Earnhardt Boulevard. This facility is operated by the Cabarrus Health Alliance, and serves as a model of service delivery for other health departments across the country. On Memorial Day of 2013, the City opened a renovated and upgraded veterans' memorial park on the grounds of the research campus. This park; containing a beautiful water feature and eternal flame, and honors all residents of Cabarrus and Rowan County who died during active military service.

In the fall of 2013, the City of Kannapolis plans to break ground on a 100,000 square foot; \$28 million dollar; City Hall/Police Headquarters. The new building will be funded by a combination of \$5.8 million dollars of Limited Obligation Bonds issued in 2010 and \$23 million of Limited Obligation Bonds that will be issued in the spring of 2014. The City Hall/Police Headquarters will be a 100 year building outfitted with the latest technology to serve its citizens into the foreseeable future. The building will also include approximately 10,000 square feet of public meeting space; available to citizens and companies in Kannapolis. The building design will be modeled after other campus-style buildings already located on the NCRC, such as the Core Lab.

Despite the economic slowdown in the Nation's economy, the City of Kannapolis is poised for continued growth and development as evidenced by the construction of the North Carolina Research Campus and the development and /or expansion of over 40 residential sub-divisions in

the City with plans to build approximately 6500 new homes and apartments in Kannapolis within the next decade.

LONG TERM FINANCIAL PLANNING

In the spring of 2012, the Kannapolis City Council adopted a 10 year financial forecasting model. This model details all significant revenues and expenditures across all funds for the city. In order to determine future revenues and expenditures, the City compiled ten prior years' audited data, along with the current year's budget estimates. This data was then used to identify trends that would assist city staff in accurately projecting future financial performance. This financial forecasting model has been integrated with the City's revised Capital Improvement Plan (CIP). The goal is to readily identify future revenue gaps, and to provide city leaders with the knowledge necessary to make changes in the current financial structure, while at the same time effectively planning for infrastructure improvements in order to meet the needs of a growing population.

In conjunction with the financial forecasting model, the Kannapolis City Council also approved several other financial management policies, such as a debt management policy, cash reserve policy, as well as an idle funds investment policy. The goal in adopting all of these policies, as well as the financial forecasting model, is to design parameters stipulating a desired financial position, so that the City can continue to meet the needs of its citizens, while at the same time remaining financially sound.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kannapolis, North Carolina for its comprehensive annual financial report for the fiscal year ended June 30, 2012. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The comprehensive annual financial report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate. The City of Kannapolis has received a Certificate of Achievement each year since 1991.

The timely presentation of this report could not have been accomplished without the assistance and dedication of the entire staff of the Finance Department. Special thanks go to Wendi Heglar, Deputy Finance Director, for her contribution to this report. We also appreciate the cooperation and assistance of the other City departments, as well as the assistance of the City's independent auditor, Martin Starnes & Associates, CPAs, P.A. in preparing and assembling this report. In addition, we express our appreciation to the Mayor and City Council for their continued support and leadership in conducting the financial activities of the City in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Eric Davis". The signature is fluid and cursive, with a prominent initial "E" and a long, sweeping underline.

Eric Davis
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

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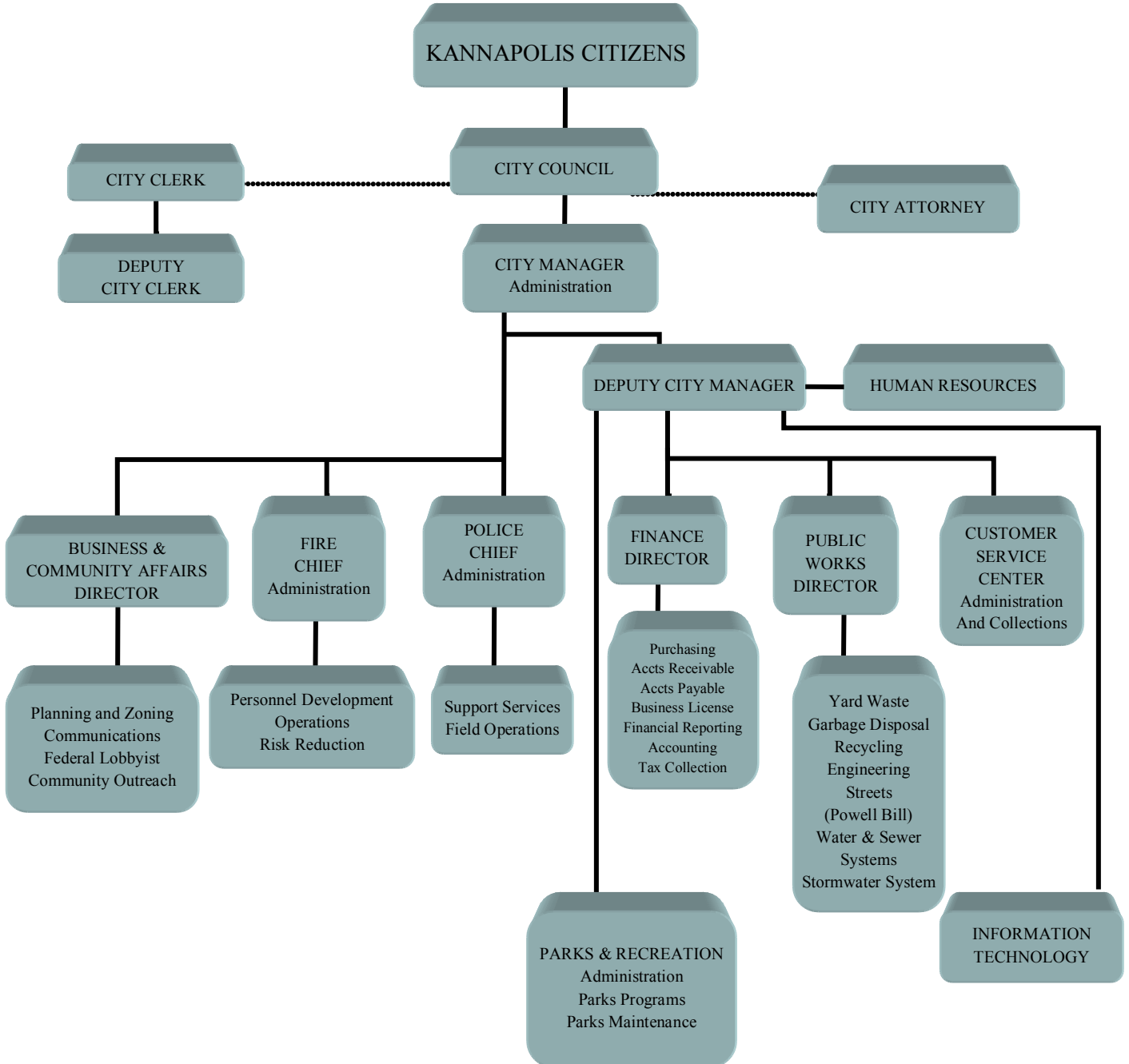
**City of Kannapolis
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

City of Kannapolis, North Carolina Organizational Chart



**CITY OF KANNAPOLIS
NORTH CAROLINA**

MAYOR AND CITY OFFICIALS

MAYOR AND CITY COUNCIL

Robert S. Misenheimer – Mayor

R. Gene McCombs – Mayor Pro-tem

Tom Kincaid – Councilman

Randy E. Cauthen – Councilman

M. Darrell Hinnant – Councilman

Roger D. Haas – Councilman

Ryan G. Dayvault – Councilman

OFFICIALS

Michael B. Legg
City Manager

Bridgette L. Bell
City Clerk

Eric Davis Finance
Director

R. Edward Smith
Deputy City Manager

Tina H. Cline
Human Resource Director

Walter M. Safrit, II
City Attorney

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Financial Section

- Independent Auditor's Report
 - Management's Discussion and Analysis
 - Basic Financial Statements
 - Combining and Individual Fund Financial Statements and Schedules
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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kannapolis, North Carolina as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Kannapolis' 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 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 *Governmental Auditing Standards*, issued by the Comptroller 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.

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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kannapolis, North Carolina as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective 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 Management's Discussion and Analysis and the Law Enforcement Officers' and the Other Post-Employment Benefits and Special Separation Allowance Schedules of Funding Progress and Employer Contributions, 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 the 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 consist 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 City of Kannapolis' basic financial statements. The introductory information, combining and individual fund financial statements, budgetary schedules, other schedules, and statistical section as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial 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, the combining and individual fund financial 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.

The introductory information and the statistical section have not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of the City of Kannapolis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Kannapolis' internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 31, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City, we offer readers of the City of Kannapolis' (the "City") financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

- The assets of the City of Kannapolis exceeded its liabilities at the close of the fiscal year by \$172,932,527 (*net position*).
- The government's total net position increased by \$1,841,344, primarily due to increases in the governmental activities net position.
- As of the close of the current fiscal year, the City of Kannapolis' governmental funds reported combined ending fund balances of \$19,337,732, with a net change of \$105,608 in fund balance. Approximately 65% of this total amount, or \$12,660,947, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$6,705,710, or 17%, of the total General Fund expenditures for the fiscal year.
- The City of Kannapolis' total debt increased \$2,064,900 or 3% during the current fiscal year. The key factor in this increase was the installment financing loan for a Stormwater project, new City warehouse, and fire truck.
- The City holds the following underlying bond ratings:

Water and Sewer Revenue Bonds

Moody's	A2
Standard & Poor's	A+

Limited Obligation Bonds

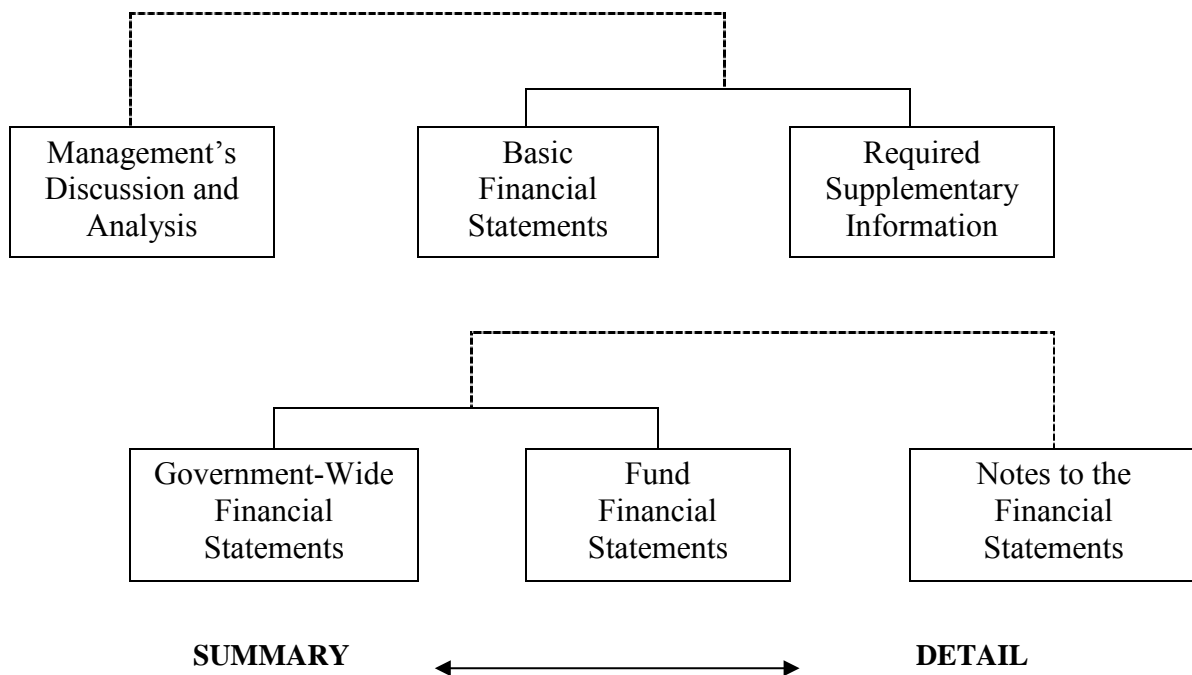
Standard & Poor's	A
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- Since the City approved a variety of financial policies in the spring of 2012, Kannapolis has worked hard to follow these policies in order to ensure financial success and good standing. Fiscal Year 2013 was the first year of the newly implemented 10-year financial plan. This plan included several revenue increases that are vital to the successful implementation of this plan. Each increased revenue stream can be directly tied to specific capital investments in Kannapolis' future. Some of the core principals of the financial plan are: the elimination of one-time revenues being used to finance ongoing city operations; the reliance of more user fees instead of property taxes. These fee increases include; Stormwater and Environmental fees. Finally, the City has incorporated a plan in order to achieve a goal having each enterprise fund be self-supporting from its own rate structure, rather than a reliance on transfers from other funds.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise 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.

Required Components of Annual Financial Report
Figure 1



BASIC FINANCIAL STATEMENTS

The basic financial statements include two kinds of statements that present different views of the City.

The first two statements (Exhibit A and B) are the *Government-Wide Financial Statements*. They provide both short and long-term information about the City's overall financial status, in a manner similar to a private-sector business.

The remaining statements (Exhibits C through K) are *Fund Financial Statements*. These statements focus on the activities of the individual parts of the City's government, reporting the City's operations in 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 financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. Following the notes is the section of *required supplemental information* and a section of *supplementary information* - (it) with combining statements that provide details on the City's nonmajor governmental funds and Internal Service Fund, all of which are combined into one column on the basic financial statements. Budgetary information required by the North Carolina General Statutes can also be found in this part of the statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by the private-sector companies. The two government-wide statements report the City's *net position* and how they have changed.

The *Statement of Net Position* includes all of the City's assets and the total liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public works, public safety, community development, and parks and recreation. The business-type activities consist of water and sewer operations and Stormwater operations.

The government-wide financial statements are on Exhibits A and B of this report, pages 27 through 29.

FUND FINANCIAL STATEMENTS

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, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements such as the General Statutes or the City's budget ordinance. All of the funds of the City 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 the governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and the balances 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 which provide a current financial resources 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 fewer financial resources available to finance the City's programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship between governmental 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 maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund and the NCRC Project Development Financing 2010 Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City 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 Statement of Revenues, Expenditures and Changes in Fund Balance. 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 variance between the final budget and the actual resources and charges.

The basic governmental fund financial statements can be found on pages 30 through 33 of this report.

Proprietary Funds. The City maintains only one type of proprietary fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations, Stormwater operations, and recycling operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for water and sewer operations, the environmental services and for the stormwater operations and recycling operations which are considered major funds of the City.

The basic proprietary fund financial statements can be found on pages 34 through 36 of this report.

Fiduciary Fund. The City is the trustee for a pension trust fund for its law enforcement officers and civilian full-time employees. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the City's government-wide financial statements, because the City cannot use these assets to finance its operations.

The basic fiduciary fund financial statements are on Exhibits J and K, pages 37 and 38 of this report.

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 can be found on pages 39 through 76 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. This required supplementary information can be found on pages 77 and 78 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 79 through 111 of this report for the City's governmental funds and pages 112 through 130 for the City's enterprise funds.

Government-Wide Financial Analysis. As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position.

By far, the largest portion of the City's net position (95 %) reflects its net investment in capital assets (e.g., land, buildings, streets, sidewalks, bridges, automotive equipment, office and other equipment, water treatment and storage facilities, water distribution lines, and sewage collection lines, less any related debt still outstanding that was issued to acquire those assets). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 themselves cannot be used to liquidate these liabilities. The remaining balance of net position is made up of restricted and unrestricted net position, totaling \$3,242,761 and \$5,556,197, respectively, may be used to meet the government's ongoing obligations to citizens and creditors. The restricted net position may be used only to pay restricted current and future obligations as dictated by restrictive covenants pertaining to these assets.

City of Kannapolis' Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Assets:						
Current and other assets	\$ 23,887,479	\$ 23,194,915	\$ 9,566,364	\$ 8,682,534	\$ 33,453,843	\$ 31,877,449
Capital assets	<u>142,706,679</u>	<u>140,503,971</u>	<u>82,776,481</u>	<u>83,818,964</u>	<u>225,483,160</u>	<u>224,322,935</u>
Total assets	<u>166,594,158</u>	<u>163,698,886</u>	<u>92,342,845</u>	<u>92,501,498</u>	<u>258,937,003</u>	<u>256,200,384</u>
Liabilities:						
Long-term liabilities						
outstanding	49,960,535	49,102,896	24,528,845	25,062,828	74,489,380	74,165,724
Other liabilities	<u>7,223,644</u>	<u>7,185,197</u>	<u>4,249,831</u>	<u>3,730,867</u>	<u>11,473,475</u>	<u>10,916,064</u>
Total liabilities	<u>57,184,179</u>	<u>56,288,093</u>	<u>28,778,676</u>	<u>28,793,695</u>	<u>85,962,855</u>	<u>85,081,788</u>
Deferred Inflows of Resources	<u>41,621</u>	<u>27,413</u>	-	-	<u>41,621</u>	<u>27,413</u>
Net Position:						
Net investment						
in capital assets	105,486,089	104,874,655	58,647,480	57,455,553	164,133,569	162,330,208
Restricted	3,242,761	3,643,925	-	-	3,242,761	3,643,925
Unrestricted	<u>639,508</u>	<u>(1,135,200)</u>	<u>4,916,689</u>	<u>6,252,250</u>	<u>5,556,197</u>	<u>5,117,050</u>
Total net position	<u>\$ 109,368,358</u>	<u>\$ 107,383,380</u>	<u>\$ 63,564,169</u>	<u>\$ 63,707,803</u>	<u>\$ 172,932,527</u>	<u>\$ 171,091,183</u>

The City's total unrestricted net position increased this fiscal year by \$439,147 primarily due to an increase in net investment in capital. Several particular aspects of the City's financial operations positively influenced the total unrestricted net position:

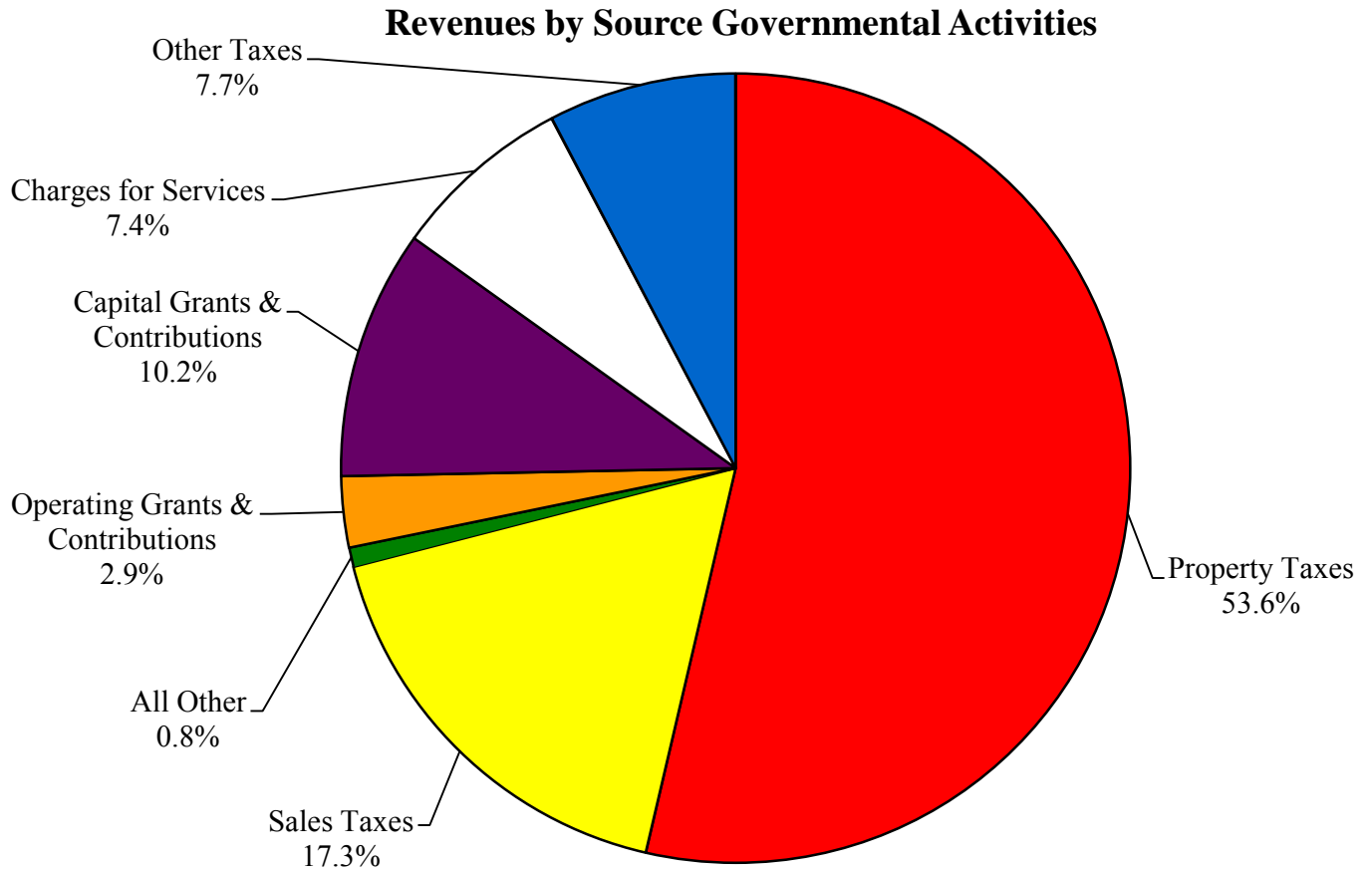
- The City's continued efforts to hold down expenses for governmental activities.
- The City has maintained a policy of aggressively seeking funding through grants and contributions. The City received \$4,932,613 in grants and contributions this year. This is up 31% from fiscal year 2012.
- The City's tax rate for fiscal year 2013 was \$0.56 cents per \$100. This led to an increase in property tax revenue of \$687,740, or 3.7%.

City of Kannapolis' Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 2,676,711	\$ 2,909,576	\$ 16,597,322	\$ 15,761,522	\$ 19,274,033	\$ 18,671,098
Operating grants and contributions	1,035,916	55,865	-	-	1,035,916	55,865
Capital grants and contributions	3,659,991	2,561,065	236,706	1,205,313	3,896,697	3,766,378
General revenues:						
Property taxes	19,273,552	18,585,812	-	-	19,273,552	18,585,812
Other taxes	8,996,916	8,309,573	-	-	8,996,916	8,309,573
Other revenues	299,737	592,232	2,851	36,163	302,588	628,395
Total revenues	35,942,823	33,014,123	16,836,879	17,002,998	52,779,702	50,017,121
Expenses:						
General government	7,776,879	8,102,674	-	-	7,776,879	8,102,674
Public safety	15,028,400	12,522,436	-	-	15,028,400	12,522,436
Public works	5,491,725	7,667,867	-	-	5,491,725	7,667,867
Community development	1,754,181	1,532,947	-	-	1,754,181	1,532,947
Parks and recreation	2,171,625	1,930,657	-	-	2,171,625	1,930,657
Water and Sewer	-	-	11,427,458	13,045,102	11,427,458	13,045,102
Stormwater	-	-	1,691,032	1,436,327	1,691,032	1,436,327
Environmental services	-	-	3,314,268	426,917	3,314,268	426,917
Other	2,282,790	2,275,952	-	-	2,282,790	2,275,952
Total expenses	34,505,600	34,032,533	16,432,758	14,908,346	50,938,358	48,940,879
Decrease (increase) in net position before transfers	1,437,223	(1,018,410)	404,121	2,094,652	1,841,344	1,076,242
Transfers	547,755	(316,408)	(547,755)	316,408	-	-
Increase (decrease) in net position	1,984,978	(1,334,818)	(143,634)	2,411,060	1,841,344	1,076,242
Net Position:						
Beginning of year - July 1	107,383,380	108,718,198	63,707,803	61,296,743	171,091,183	170,014,941
End of year - June 30	\$ 109,368,358	\$ 107,383,380	\$ 63,564,169	\$ 63,707,803	\$ 172,932,527	\$ 171,091,183

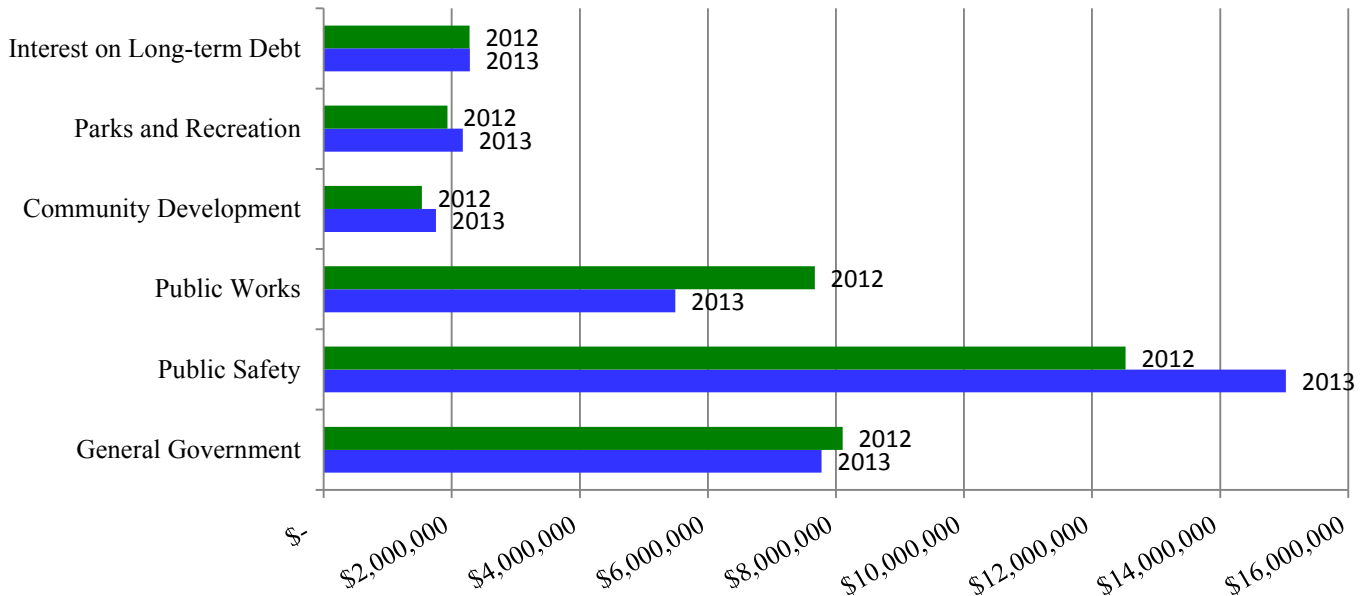
Governmental Activities. Net position increased in the City’s governmental activities this fiscal year by \$1,984,978. Key elements of this increase are as follows:

- Tax revenue increased this year due to a \$.07 cent increase in the tax rate. This rate was revenue neutral due to revaluation.
- Sales tax increased \$514,237, or 9%.
- Operating grants increased due to a SAFER Grant received by the Fire Department. The grant paid for sixteen new fire fighter positions.



As shown in the above chart, the City’s main source of revenue is from Property Taxes. The second largest source of revenue is Sales Taxes. Property Taxes total \$19,273,552, while Sales Taxes total \$6,212,206. The third largest source of revenue is through capital grants and contributions. The City received grants from the State of North Carolina, the U.S. Department of Housing and Urban Development, the U.S. Department of Transportation, the U.S. Environmental Protection Agency, the U.S. Department of Energy, the U.S. Department of Homeland Security, the Federal Emergency Management Agency, and the U.S. Department of Justice. The City also received property donations totaling \$139,260. This donated property came from developers donating \$17,820 in sidewalks and \$121,440 in streets.

Government Activities Expenses

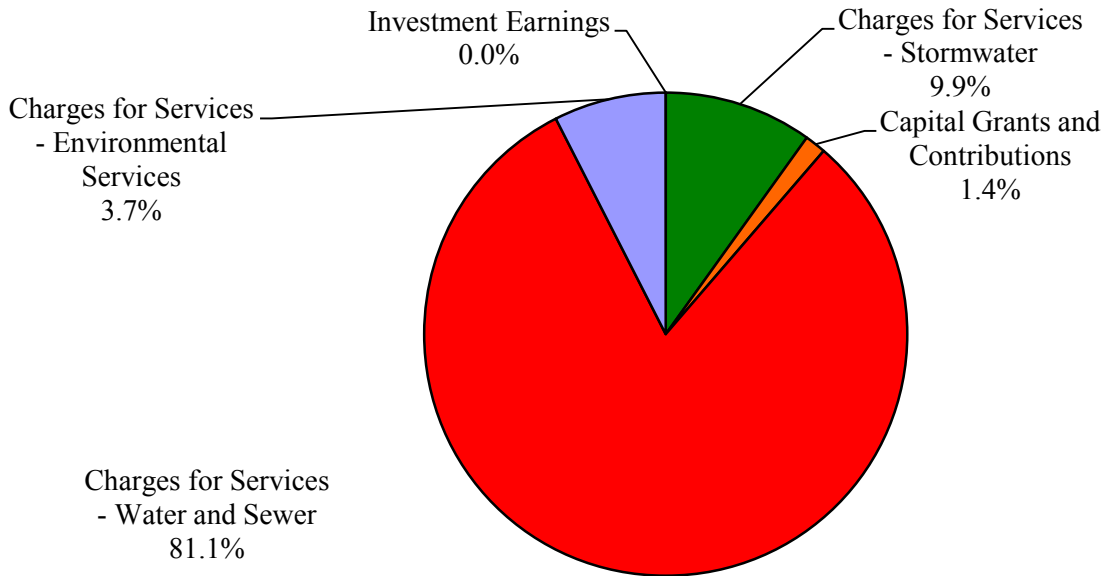


Explanations for the changes in General Government and Community Development as shown above were included earlier in the key elements for governmental activities.

Business-Type Activities. Business-type activities decreased the City of Kannapolis' net position by \$143,634. Key elements of this decrease are as follows:

- Water and sewer revenue remained steady. However, Stormwater and Environmental Services Funds increased revenue due to rate increases. Stormwater had a 9% increase for fiscal year 2013 and Environmental Fund increased from \$3.65 to \$6.85 per household. This accounted for an \$835,800 increase in business-type activities revenue from the previous fiscal year.
- Capital grants and contributions decreased by \$901,479 in the Water and Sewer Fund. This can be attributed to a decrease in developer contributions of water and sewer lines to the City.
- The Environmental Fund transferred \$500,000 to the General Fund to reimburse the fund for previous year expenditures attributable to the Environmental Service Fund.

Revenues by Source - Business-Type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Kannapolis uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of Kannapolis’ governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City’s financing requirements.

The General Fund is the chief operating fund for the City of Kannapolis. At the end of the current fiscal year, the City of Kannapolis’ fund balance unassigned in the General Fund was \$6,705,693 while total fund balance reached \$9,040,813. The City currently has an available fund balance of 17% of General Fund expenditures, while total fund balance represents 23% of the same amount. As mentioned earlier, the City Council adopted a fund balance policy stipulating an acceptable range between 22% and 33% of General Fund expenditures in case of unforeseen needs or opportunities, as well as meeting the cash flow needs of the City. The City plans to continue to budget and spend conservatively in order to increase the percentage of available fund balance to 25% of General Fund expenditures.

At June 30, 2013, the governmental funds of the City of Kannapolis reported a combined fund balance of \$19,337,732 with a net increase in fund balance of \$105,608. Included in this change in fund balance was a \$5,644,145 decrease in fund balance in the NCRC Project Development Financing 2010 Fund. The most significant decreases are from the Pedestrian Tunnel and Veterans Park projects and a \$3,800,000 transfer to the City Hall/ Public Safety Building Capital Project Fund.

General Fund Budgetary Highlights

During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available, 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants, and 3) increase in appropriations that become necessary to maintain services.

Total amendments to the General Fund increased revenues and expenditures by \$9,989,730, or 5.4%. The largest amendment to the general fund was proceeds from debt refinancing for installment loans totaled \$7,565,514. Another significant amendment was \$1,200,000 for the purchase of a warehouse, which is used by the Parks and Recreation Department. All other budget amendments were minor.

The total variance from the final budget numbers to the actual results for revenues that the City received was \$544,257, or 1.6%, more than the budgeted amount. Property tax revenue and sale tax revenue were up \$133,093 and \$501,275, respectively. Total revenue increased by 9.8% from fiscal year 2012.

The total variance from the final budget numbers to the actual results for expenditures totaled \$1,905,364, or 4.7%, of final budget. A several projects were on going in the General Fund at year-end resulting in \$600,000 in unspent funds. These funds will be budgeted again in fiscal year 2014.

Proprietary Funds

The City of Kannapolis' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The non-capital and non-restricted portion of net position of the business-type funds at June 30, 2013 was \$4,916,689, compared to \$6,252,250 at June 30, 2012. See the detailed explanation of this increase under key elements of the change in the net position discussed earlier under business-type activities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013 totaled \$225,483,160 (net of accumulated depreciation). This is an increase from June 30, 2012 of \$1,160,225. These assets include land, buildings, improvements, machinery and equipment, and infrastructure.

Major capital asset transactions during the year included the following:

- A City Warehouse purchase and renovation \$1,000,000
- Public safety equipment including a \$370,000 Pierce Pumper Truck and \$940,000 in various other equipment.

City of Kannapolis' Capital Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 9,825,807	\$ 9,825,807	\$ 730,342	\$ 730,342	\$ 10,556,149	\$ 9,864,716
Construction in progress	18,665,323	20,415,996	1,185,484	2,369,252	19,850,807	12,366,865
Rowan County water rights	-	-	2,411,100	2,411,100	2,411,100	2,411,100
Buildings and systems	16,950,130	15,995,880	22,859,487	22,778,854	39,809,617	35,046,601
Improvements other than buildings	7,133,214	2,856,764	-	-	7,133,214	2,856,764
Machinery and equipment	15,329,621	15,466,855	2,989,679	2,830,819	18,319,300	17,531,793
Infrastructure	148,910,057	147,760,819	91,066,596	88,876,476	239,976,653	233,939,107
Total	<u>216,814,152</u>	<u>212,322,121</u>	<u>121,242,688</u>	<u>119,996,843</u>	<u>338,056,840</u>	<u>314,016,946</u>
Less accumulated depreciation and amortization	<u>74,107,473</u>	<u>71,818,150</u>	<u>38,466,207</u>	<u>36,177,881</u>	<u>112,573,680</u>	<u>101,219,008</u>
Capital assets, net	<u>\$ 142,706,679</u>	<u>\$ 132,298,672</u>	<u>\$ 82,776,481</u>	<u>\$ 80,499,266</u>	<u>\$ 225,483,160</u>	<u>\$ 212,797,938</u>

For additional information on the City's capital assets see pages 53 through 55 of this report.

Long-Term Debt

At the end of the current fiscal year, the City of Kannapolis had total debt outstanding of \$71,236,420. Of this amount, \$16,366,902 represents bonds secured solely by water and sewer revenues. (i.e. revenue bonds). The City also has \$21,744,518 in outstanding installment obligations and \$33,125,000 in outstanding limited obligation bonds. Through an intergovernmental agreement Cabarrus County makes contributions for approximately 40% for the limited obligation bonds annually.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Installment obligations	\$ 12,600,133	\$ 12,537,867	\$ 9,144,385	\$ 8,718,447	\$ 21,744,518	\$ 21,256,314
Revenue bonds	-	-	16,366,902	17,620,006	16,366,902	17,620,006
Limited obligation bonds	<u>33,125,000</u>	<u>34,425,000</u>	-	-	<u>33,125,000</u>	<u>34,425,000</u>
Total	<u>\$ 45,725,133</u>	<u>\$ 46,962,867</u>	<u>\$ 25,511,287</u>	<u>\$ 26,338,453</u>	<u>\$ 71,236,420</u>	<u>\$ 73,301,320</u>

The City refinanced eight installment financing loans during the year. This resulted in a net present value savings of \$639,219, or 6.29%. The new interest rate is 1.98%. The City also issued a new installment financing loan for \$2,910,000. This paid for a new fire truck, City warehouse and a Stormwater culvert.

The State of North Carolina limits 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. At June 30, 2013, the legal debt margin for the City totaled \$214,123,261. As mentioned previously, the City Council adopted a Debt Management policy in May of 2012. According to this policy, the net debt (tax supported) should not exceed 2% of the total assessed value of taxable property.

Additional information on the City of Kannapolis' long-term debt can be found in Note 2(B) on pages 63 through 72 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for Cabarrus County in June 2013 was 7.9%, which is a decrease from a rate of 9.3% in June 2012. A portion of the City (18%) is located in Rowan County. The unemployment rate in Rowan County decreased to 8.8% in June 2012, compared to 10.3% in both June 2011 and June 2010.
- Population in the City has increased from 38,679 in 2004 to 43,312 in 2013.

All of these factors were considered in preparing the City of Kannapolis' budget for fiscal year 2013. The City Council had to increase the tax rate 7 cents to 56 cents per \$100 of value in order to remain revenue neutral. The overall General Fund budget increased \$1,063,366, or 2.3%, from the current year budget.

The City's water and sewer structure incorporates both a base fee and a volume rate, which will both increase in Fiscal Year 2014. The base charge is proposed to increase by \$1.70 per month to cover revisions to the debt service obligation for the Albemarle Waterline project. The variable rate is expected to increase \$0.30 per 1,000 gallons for Tier 1 customers, which is expected to generate \$585,000. The proposed Fiscal Year 2014 Water and Sewer Budget increased 10.3% from the currently year budget (\$1,376,836 actual increase). In Fiscal Year 2013, the water and sewer budget increased 2.16% (\$282,641 actual) from the previous fiscal year.

A Stormwater Fund budget for FY2014 totaled \$2,010,000, which represents a 1.82% increase from the current year budget (\$35,900 actual). This fund includes cost appropriations related to a federally mandated educational program and annual maintenance of the City's storm drainage system.

The proposed Fiscal Year 2014 environmental fund experienced a 4.96% increase from the current year budget (\$168,167 actual). Fiscal Year 2013 was the first year the City consolidated its environmental services (yard waste and curbside garbage collection programs) into a stand-alone fund.

In Fiscal Year 2012, the City of Kannapolis acquired sole ownership of newly named Northeast–CMC Stadium; home of the Kannapolis Intimidators (Chicago White Sox Single-A affiliate). The General Fund includes cost appropriations related to the operation of the baseball stadium in the amount of \$101,800. The Fiscal Year 2014 budget includes the first full payment of \$62,500 to Rowan County for the equity purchase in the stadium property.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Kannapolis' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Kannapolis, P.O. Box 1199, Kannapolis, North Carolina 28082.

Basic Financial Statements

The **Basic Financial Statements** present a condensed overview of the financial position and results of operations of the City as a whole. They also serve as an introduction to the more detailed statements and schedules that follow.

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CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets:			
Current assets:			
Cash and cash equivalents	\$ 8,947,324	\$ 3,970,423	\$ 12,917,747
Taxes receivable	1,173,723	-	1,173,723
Accounts receivable, net	243,327	4,349,788	4,593,115
Due from other governments	2,018,455	74,092	2,092,547
Cash and cash equivalents, restricted	11,454,573	1,172,061	12,626,634
Prepaid items	50,077	-	50,077
Total current assets	<u>23,887,479</u>	<u>9,566,364</u>	<u>33,453,843</u>
Non-current assets:			
Intangible asset, net of amortization	-	1,880,658	1,880,658
Non-depreciable assets	28,491,130	1,915,826	30,406,956
Other capital assets, net of depreciation	114,215,549	78,979,997	193,195,546
Total non-current assets	<u>142,706,679</u>	<u>82,776,481</u>	<u>225,483,160</u>
Total assets	<u>166,594,158</u>	<u>92,342,845</u>	<u>258,937,003</u>
Liabilities:			
Current liabilities:			
Accounts payable	921,430	670,693	1,592,123
Accrued expenses	1,725,924	360,001	2,085,925
Accrued interest	750,097	223,957	974,054
Current compensated absences	640,027	97,893	737,920
Current maturities of long-term debt	3,049,629	2,598,284	5,647,913
Prepaid fees	136,537	-	136,537
Liabilities to be paid from restricted assets	-	299,003	299,003
Total current liabilities	<u>7,223,644</u>	<u>4,249,831</u>	<u>11,473,475</u>
Non-current liabilities:			
Non-current compensated absences	202,114	30,913	233,027
Other post-employment benefits obligation	5,989,167	1,584,929	7,574,096
Unfunded pension obligation	1,093,750	-	1,093,750
Long-term debt	42,675,504	22,913,003	65,588,507
Total non-current liabilities	<u>49,960,535</u>	<u>24,528,845</u>	<u>74,489,380</u>
Total liabilities	<u>57,184,179</u>	<u>28,778,676</u>	<u>85,962,855</u>
Deferred Inflows of Resources:			
Prepaid taxes	<u>41,621</u>	<u>-</u>	<u>41,621</u>
Net Position:			
Net investment in capital assets	105,486,089	58,647,480	164,133,569
Restricted - stabilization for State statute	1,723,093	-	1,723,093
Restricted - streets	660,796	-	660,796
Restricted - public safety	63,193	-	63,193
Restricted - community development	795,679	-	795,679
Unrestricted	639,508	4,916,689	5,556,197
Total net position	<u>\$ 109,368,358</u>	<u>\$ 63,564,169</u>	<u>\$ 172,932,527</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 7,776,879	\$ 2,117,978	\$ 65,459	\$ 1,535,880
Public safety	15,028,400	118,039	970,457	298,501
Public works	5,491,725	25,496	-	1,467,612
Community development	1,754,181	136,436	-	357,998
Parks and recreation	2,171,625	278,762	-	-
Interest on long-term debt	2,282,790	-	-	-
Total governmental activities	<u>34,505,600</u>	<u>2,676,711</u>	<u>1,035,916</u>	<u>3,659,991</u>
Business-Type Activities:				
Water and sewer	11,427,458	13,661,233	-	236,334
Stormwater	1,691,032	1,671,729	-	-
Environmental services	3,314,268	1,264,360	-	372
Total business-type activities	<u>16,432,758</u>	<u>16,597,322</u>	<u>-</u>	<u>236,706</u>
Total primary government	<u>\$ 50,938,358</u>	<u>\$ 19,274,033</u>	<u>\$ 1,035,916</u>	<u>\$ 3,896,697</u>

General Revenues:

Taxes:

Ad valorem taxes

Sales tax

Other taxes and licenses

Franchise tax

Unrestricted intergovernmental revenues

Investment earnings

Total general revenues not including transfers

Transfers

Total general revenues and transfers

Change in net position

Net Position:

Beginning of year - July 1

End of year - June 30

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

Exhibit B

**Net (Expense) Revenue
and Changes in Net Position**

Primary Government

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (4,057,562)	\$ -	\$ (4,057,562)
(13,641,403)	-	(13,641,403)
(3,998,617)	-	(3,998,617)
(1,259,747)	-	(1,259,747)
(1,892,863)	-	(1,892,863)
(2,282,790)	-	(2,282,790)
<u>(27,132,982)</u>	<u>-</u>	<u>(27,132,982)</u>
-	2,470,109	2,470,109
-	(19,303)	(19,303)
-	<u>(2,049,536)</u>	<u>(2,049,536)</u>
-	401,270	401,270
<u>(27,132,982)</u>	<u>401,270</u>	<u>(26,731,712)</u>
19,273,552	-	19,273,552
6,212,206	-	6,212,206
944,190	-	944,190
1,840,520	-	1,840,520
186,820	-	186,820
112,917	2,851	115,768
<u>28,570,205</u>	<u>2,851</u>	<u>28,573,056</u>
547,755	(547,755)	-
<u>29,117,960</u>	<u>(544,904)</u>	<u>28,573,056</u>
1,984,978	(143,634)	1,841,344
<u>107,383,380</u>	<u>63,707,803</u>	<u>171,091,183</u>
<u>\$ 109,368,358</u>	<u>\$ 63,564,169</u>	<u>\$ 172,932,527</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General Fund	NCRC Project Development Financing 2010	Other Governmental Funds	
Assets:				
Cash and cash equivalents	\$ 5,065,907	\$ -	\$ 3,881,417	\$ 8,947,324
Taxes receivable	1,173,723	-	-	1,173,723
Accounts receivable	15,515	-	227,812	243,327
Due from other governments	1,856,655	3,358	158,442	2,018,455
Due from other funds	11,823	-	-	11,823
Cash and cash equivalents - restricted	4,981,214	5,791,680	681,679	11,454,573
Prepaid items	50,077	-	-	50,077
Total assets	<u>\$ 13,154,914</u>	<u>\$ 5,795,038</u>	<u>\$ 4,949,350</u>	<u>\$ 23,899,302</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ 713,340	\$ 103,469	\$ 104,621	\$ 921,430
Accrued liabilities	1,725,924	-	-	1,725,924
Prepaid fees	136,537	-	-	136,537
Due to other funds	-	-	11,823	11,823
Total liabilities	<u>2,575,801</u>	<u>103,469</u>	<u>116,444</u>	<u>2,795,714</u>
Deferred Inflows of Resources:				
Prepaid taxes	41,621	-	-	41,621
Property taxes receivable	1,173,723	-	-	1,173,723
Other unavailable revenue	322,956	-	227,556	550,512
Total deferred inflows of resources	<u>1,538,300</u>	<u>-</u>	<u>227,556</u>	<u>1,765,856</u>
Fund Balances:				
Non-spendable:				
Prepaid items	50,077	-	-	50,077
Restricted:				
Stabilization for State statute	1,561,037	3,358	158,698	1,723,093
Restricted for community development	-	-	795,679	795,679
Restricted for streets	660,796	-	-	660,796
Restricted for public safety	63,193	-	-	63,193
Committed	-	5,688,211	3,679,898	9,368,109
Unassigned	6,705,710	-	(28,925)	6,676,785
Total fund balances	<u>9,040,813</u>	<u>5,691,569</u>	<u>4,605,350</u>	<u>19,337,732</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 13,154,914</u>	<u>\$ 5,795,038</u>	<u>\$ 4,949,350</u>	
Amounts reported for governmental activities in the Statement of Net Position are different because:				
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.				142,706,679
Deferred inflows of resources in the governmental funds are used to offset accounts receivable not expected to be available within 60 days of year-end. These receivables are a component of net position in the Statement of Net Position.				1,724,235
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.				
Debt payable				(45,725,133)
Unfunded LEO				(1,093,750)
Other post-employment benefits				(5,989,167)
Accrued interest				(750,097)
Compensated absences				(842,141)
Net position of governmental activities				<u>\$ 109,368,358</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General Fund	NCRC Project Development Financing 2010	Other Governmental Funds	
Revenues:				
Ad valorem taxes	\$ 19,032,093	\$ -	\$ -	\$ 19,032,093
Other taxes and licenses	6,997,025	-	159,371	7,156,396
Unrestricted intergovernmental	2,027,340	-	-	2,027,340
Restricted intergovernmental	3,702,535	145,378	399,141	4,247,054
Sales and services	1,767,442	-	-	1,767,442
Investment earnings	105,420	7,497	-	112,917
Miscellaneous	909,291	-	-	909,291
Total revenues	<u>34,541,146</u>	<u>152,875</u>	<u>558,512</u>	<u>35,252,533</u>
Expenditures:				
Current:				
General government	8,358,540	-	-	8,358,540
Public safety	13,864,473	-	-	13,864,473
Public works	3,087,720	-	-	3,087,720
Community development	751,408	-	950,223	1,701,631
Capital outlay	-	3,094,775	432,253	3,527,028
Parks and recreation	1,549,358	-	-	1,549,358
Debt service:				
Principal retirement	8,803,248	-	-	8,803,248
Interest and fees	2,368,197	-	-	2,368,197
Total expenditures	<u>38,782,944</u>	<u>3,094,775</u>	<u>1,382,476</u>	<u>43,260,195</u>
Revenues over (under) expenditures	<u>(4,241,798)</u>	<u>(2,941,900)</u>	<u>(823,964)</u>	<u>(8,007,662)</u>
Other Financing Sources (Uses):				
Transfers out	(2,168,811)	(3,800,000)	(346,087)	(6,314,898)
Transfers in	1,197,888	1,097,755	4,567,011	6,862,654
Issuance of long-term debt	7,565,514	-	-	7,565,514
Total other financing sources (uses)	<u>6,594,591</u>	<u>(2,702,245)</u>	<u>4,220,924</u>	<u>8,113,270</u>
Net change in fund balances	2,352,793	(5,644,145)	3,396,960	105,608
Fund Balances:				
Beginning of year - July 1	<u>6,688,020</u>	<u>11,335,714</u>	<u>1,208,390</u>	<u>19,232,124</u>
End of year - June 30	<u>\$ 9,040,813</u>	<u>\$ 5,691,569</u>	<u>\$ 4,605,350</u>	<u>\$ 19,337,732</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

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

Net changes in fund balances - total governmental funds (Exhibit D)	\$ 105,608
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.	6,082,744
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(3,990,932)
The sale of capital assets is reported as a revenue in the governmental funds statement without subtracting the net book value of the capital assets sold.	(28,364)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	636,436
Expenses related to compensated absences, Law Enforcement Officers' Separation Allowance, and other post-employment benefits that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(2,197,508)
Contribution of assets from developers not reported in the fund financial statements	139,260
Proceeds from issuance of debt are reported as revenues in the governmental funds statement. However, in the Statement of Activities, it is not a revenue, rather it is an increase in liabilities.	(7,565,514)
Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	<u>8,803,248</u>
Total changes in net position of governmental activities (Exhibit B)	<u>\$ 1,984,978</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 18,898,998	\$ 18,899,000	\$ 19,032,093	\$ 133,093
Other taxes and licenses	6,495,750	6,495,750	6,997,025	501,275
Unrestricted intergovernmental	2,396,002	2,396,000	2,027,340	(368,660)
Restricted intergovernmental	1,845,403	4,384,144	3,702,535	(681,609)
Sales and services	1,637,166	1,637,166	1,767,442	130,276
Investment earnings	114,600	124,225	105,420	(18,805)
Miscellaneous	720,141	739,591	909,291	169,700
Total revenues	<u>32,108,060</u>	<u>34,675,876</u>	<u>34,541,146</u>	<u>(134,730)</u>
Expenditures:				
Current:				
General government	7,484,899	9,498,099	8,358,540	1,139,559
Public safety	13,200,162	14,852,974	13,864,473	988,501
Public works	3,322,178	3,266,228	3,087,720	178,508
Community development	717,115	765,615	751,408	14,207
Parks and recreation	1,637,841	1,642,154	1,549,358	92,796
Debt service:				
Principal retirement	8,803,248	8,803,248	8,803,248	-
Interest and fees	(3,193,261)	2,544,221	2,368,197	176,024
Total expenditures	<u>31,972,182</u>	<u>41,372,539</u>	<u>38,782,944</u>	<u>2,589,595</u>
Revenues over (under) expenditures	<u>135,878</u>	<u>(6,696,663)</u>	<u>(4,241,798)</u>	<u>2,454,865</u>
Other Financing Sources (Uses):				
Transfers in	29,381	1,198,765	1,197,888	(877)
Transfers out	(1,687,063)	(2,167,636)	(2,168,811)	(1,175)
Bond proceeds	1,421,804	-	-	-
Installment financing issued	-	7,565,534	7,565,514	(20)
Appropriated fund balance	100,000	100,000	-	(100,000)
Total other financing sources (uses)	<u>(135,878)</u>	<u>6,696,663</u>	<u>6,594,591</u>	<u>(102,072)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>2,352,793</u>	<u>\$ 2,352,793</u>
Fund Balance:				
Beginning of year - July 1			<u>6,688,020</u>	
End of year - June 30			<u>\$ 9,040,813</u>	

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-Type Activities			
	Major Enterprise Funds		Nonmajor Enterprise Fund	Total Business-Type Activities
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	
Assets:				
Current assets:				
Cash and investments	\$ 3,130,159	\$ 433,009	\$ 407,255	\$ 3,970,423
Accounts receivable, net	3,832,762	327,138	189,888	4,349,788
Due from other governments	53,875	16,809	3,408	74,092
Cash and investments, restricted	299,003	873,058	-	1,172,061
Total current assets	<u>7,315,799</u>	<u>1,650,014</u>	<u>600,551</u>	<u>9,566,364</u>
Non-current assets:				
Intangible asset, net of amortization	1,880,658	-	-	1,880,658
Non-depreciable assets	1,487,263	428,563	-	1,915,826
Other capital assets net of depreciation	74,752,265	4,227,732	-	78,979,997
Total capital assets	<u>76,239,528</u>	<u>4,656,295</u>	<u>-</u>	<u>80,895,823</u>
Total assets	<u>85,435,985</u>	<u>6,306,309</u>	<u>600,551</u>	<u>92,342,845</u>
Liabilities:				
Current liabilities:				
Accounts payable	338,220	57,183	275,290	670,693
Accrued expenses	318,817	41,184	-	360,001
Accrued interest	223,957	-	-	223,957
Current portion of compensated absences	82,823	15,070	-	97,893
Current maturities of long-term debt	1,851,712	580,573	165,999	2,598,284
Liabilities to be paid from restricted assets	299,003	-	-	299,003
Total current liabilities	<u>3,114,532</u>	<u>694,010</u>	<u>441,289</u>	<u>4,249,831</u>
Non-current liabilities:				
Compensated absences	26,154	4,759	-	30,913
Other post-employment benefits obligation	1,220,302	355,996	8,631	1,584,929
Long-term debt	18,048,701	4,521,074	343,228	22,913,003
Total non-current liabilities	<u>19,295,157</u>	<u>4,881,829</u>	<u>351,859</u>	<u>24,528,845</u>
Total liabilities	<u>22,409,689</u>	<u>5,575,839</u>	<u>793,148</u>	<u>28,778,676</u>
Net Position:				
Net investment in capital assets	58,219,774	427,706	-	58,647,480
Unrestricted	4,806,522	302,764	(192,597)	4,916,689
Total net position	<u>\$ 63,026,296</u>	<u>\$ 730,470</u>	<u>\$ (192,597)</u>	<u>\$ 63,564,169</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities			
	Major Enterprise Funds			Total Business-Type Activities
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	
Operating Revenues:				
Charges for services	\$ 12,133,653	\$ 1,670,889	\$ 1,264,360	\$ 15,068,902
Water and sewer taps	562,850	-	-	562,850
Other operating revenues	964,730	840	-	965,570
Total operating revenues	<u>13,661,233</u>	<u>1,671,729</u>	<u>1,264,360</u>	<u>16,597,322</u>
Operating Expenses:				
Administration	917,310	-	-	917,310
Distribution	1,931,456	-	-	1,931,456
Filter plant	1,869,416	-	-	1,869,416
General services	1,019,497	-	-	1,019,497
Sewage treatment	2,693,521	-	-	2,693,521
Stormwater	-	1,306,569	-	1,306,569
Environmental services	-	-	3,300,704	3,300,704
Depreciation and amortization	2,351,167	179,188	-	2,530,355
Total operating expenses	<u>10,782,367</u>	<u>1,485,757</u>	<u>3,300,704</u>	<u>15,568,828</u>
Operating income (loss)	<u>2,878,866</u>	<u>185,972</u>	<u>(2,036,344)</u>	<u>1,028,494</u>
Non-Operating Revenues (Expenses):				
Grant revenue	-	-	372	372
Interest earned on investments	2,851	-	-	2,851
Interest and fees on long-term debt	(645,091)	(205,275)	(13,564)	(863,930)
Total non-operating revenues (expenses)	<u>(642,240)</u>	<u>(205,275)</u>	<u>(13,192)</u>	<u>(860,707)</u>
Income (loss) before capital contributions and transfers	<u>2,236,626</u>	<u>(19,303)</u>	<u>(2,049,536)</u>	<u>167,787</u>
Capital contributions	<u>236,334</u>	<u>-</u>	<u>-</u>	<u>236,334</u>
Transfers:				
Transfers out	(1,175,000)	(1,097,755)	(500,000)	(2,772,755)
Transfers in	-	175,000	2,050,000	2,225,000
Total transfers	<u>(1,175,000)</u>	<u>(922,755)</u>	<u>1,550,000</u>	<u>(547,755)</u>
Change in net position	1,297,960	(942,058)	(499,536)	(143,634)
Net Position:				
Beginning of year - July 1	<u>61,728,336</u>	<u>1,672,528</u>	<u>306,939</u>	<u>63,707,803</u>
End of year - June 30	<u>\$ 63,026,296</u>	<u>\$ 730,470</u>	<u>\$ (192,597)</u>	<u>\$ 63,564,169</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities			
	Major Enterprise Funds		Nonmajor Enterprise Fund	Total
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	Business-Type Activities
Cash Flows from Operating Activities:				
Cash received from customers	\$ 13,726,130	\$ 1,667,304	\$ 1,210,353	\$ 16,603,787
Cash paid for goods and services	(6,095,537)	(668,040)	(3,055,497)	(9,819,074)
Cash paid to employees	(1,909,566)	(498,471)	8,631	(2,399,406)
Net cash provided (used) by operating activities	<u>5,721,027</u>	<u>500,793</u>	<u>(1,836,513)</u>	<u>4,385,307</u>
Cash Flows from Non-Capital Financing Activities:				
Transfers (to) from other funds	(1,175,000)	175,000	1,550,000	550,000
Net cash provided (used) by non-capital financing activities	<u>(1,175,000)</u>	<u>175,000</u>	<u>1,550,000</u>	<u>550,000</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from issuance of long-term debt	740,686	5,108,270	-	5,848,956
Premium on bond issuance	-	(1,097,755)	-	(1,097,755)
Acquisition of capital assets and capital projects	(688,058)	(350,124)	-	(1,038,182)
Principal paid on long-term debt	(2,457,939)	(4,055,821)	(162,364)	(6,676,124)
Capital grants	-	-	372	372
Interest and fees paid on long-term debt	(672,767)	(205,275)	(13,564)	(891,606)
Net cash provided (used) by capital and related financing activities	<u>(3,078,078)</u>	<u>(600,705)</u>	<u>(175,556)</u>	<u>(3,854,339)</u>
Cash Flows from Investing Activities:				
Interest on investments	<u>2,851</u>	<u>-</u>	<u>-</u>	<u>2,851</u>
Net increase (decrease) in cash and cash equivalents	1,470,800	75,088	(462,069)	1,083,819
Cash and Cash Equivalents:				
Beginning of year - July 1	<u>1,958,362</u>	<u>1,230,979</u>	<u>869,324</u>	<u>4,058,665</u>
End of year - June 30	<u>\$ 3,429,162</u>	<u>\$ 1,306,067</u>	<u>\$ 407,255</u>	<u>\$ 5,142,484</u>
Reconciliation of Operating Income (Loss) to Provided (Used) By Operating Activities:				
Operating income (loss)	\$ 2,878,866	\$ 185,972	\$ (2,036,344)	\$ 1,028,494
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	2,351,167	179,188	-	2,530,355
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	43,656	(4,426)	(54,007)	(14,777)
(Increase) decrease in prepaids	1,410	-	-	1,410
Increase (decrease) in accounts payable and accrued liabilities	62,165	19,218	245,207	326,590
Increase (decrease) in other post-employment benefits	362,522	120,841	8,631	491,994
Increase (decrease) in customer deposits	<u>21,241</u>	<u>-</u>	<u>-</u>	<u>21,241</u>
Net cash provided (used) by operating activities	<u>\$ 5,721,027</u>	<u>\$ 500,793</u>	<u>\$ (1,836,513)</u>	<u>\$ 4,385,307</u>
Summary of Non-Cash Activities:				
Transfer of debt obligations	<u>\$ -</u>	<u>\$ 1,097,755</u>	<u>\$ -</u>	<u>\$ 1,097,755</u>
Capital asset contributions	<u>\$ 449,690</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 449,690</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2013**

	<u>Separation Pay Fund</u>
Assets:	
Cash and investments	\$ 44,584
Liabilities:	
Accounts payable	<u>13,670</u>
Net Position:	
Assets held in trust for pension benefits and other purposes	<u>\$ 30,914</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Separation Pay Fund</u>
Additions:	
Employer contributions	\$ 270,000
Deductions:	
Separation pay	<u>280,429</u>
Change in net position	(10,429)
Net Position:	
Beginning of year - July 1	<u>41,343</u>
End of year - June 30	<u><u>\$ 30,914</u></u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Significant Accounting Policies

The accounting policies of the City of Kannapolis (the "City") 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 is a municipal corporation which is governed by an elected Mayor and a six-member Council. As required by generally accepted accounting principles, these financial statements present the City. There are no component units presented for which the City is financially accountable.

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. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations, except for interfund services provided and used, 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 nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 City maintains a separate Powell Bill Fund and Forfeited Property Fund for accounting purposes. For financial reporting purposes, these funds have been consolidated into the General Fund. The primary revenue sources are ad valorem taxes, federal and State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, sanitation services, cultural and recreational activities, and general governmental services.

NCRC Project Development Financing 2010. This fund is used to account for bond proceeds used for public improvements and debt issuance costs supporting the North Carolina Research Campus Project Development Financing District.

The City reports the following nonmajor governmental funds:

Community Development Block Grant Fund. This fund is used to account for federal grants under the Community Development Block Grant/Entitlement Program.

Transit Tax Fund. This fund is used to account for funds to be used in the development of a transit system for the City.

Cemetery/Village Park Parking Lot Fund. This fund is used to account for funds to be used in the maintenance and upkeep of a local cemetery.

Capital Equipment 2011. This fund is used to account for funds used in the purchase of capital assets.

Firefighters Assistance Fund. This fund is used to account for Department of Homeland Security grants to aid firefighters.

Dakota Street Bridge Improvements Fund. This fund is used to account for the construction of a creek culvert and crossing at Dakota Street.

Village Park Train Fund. This fund is used to account for funds to be used for improvements to and maintenance of a train on Village Park.

Three Bridge Project. This fund is used to account for the construction of three bridges.

James Street Area Plan. This fund is used to account for funds to be used for development of an action plan to connect residents with economic opportunities.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Irish Buffalo Creek Greenway Fund. This fund is used to account for the development of a greenway along Irish Buffalo Creek.

Stadium Drive Bridge Repairs Fund. This fund is used to account for repairs of the Stadium Drive Bridge.

FEMA Pre-Disaster Mitigation Grant - Patterson Branch Fund. This fund is used to account for funds to be used in the acquisition of two residential properties located in the Patterson Branch flood plain.

FY '10 and FY '11 Recovery Act Byrne Grant. This fund is used to account for funds awarded through the fiscal year 2010 and fiscal year 2011 Recovery Act Edward Byrne Memorial Justice Grant to purchase emergency light bars for patrol vehicles and mobile computing terminals.

Tropical Storm Fay Damage Fund. This fund is used to account for repairs of damage to River Farm Blvd. Bridge caused by Tropical Storm Fay.

Dale Earnhardt Blvd Sidewalk. This fund is used to account for funds used for sidewalk improvements on Dale Earnhardt Blvd.

Historic Preservation. This fund is used to account for funds used for historic preservation.

Rogers Lake Road – RR Crossing Improvement. This fund is used to account for improvements to the “at grade” railroad crossing at Rogers Lake Road.

City Office/Public Safety Building. This fund is used to account for construction of a City office building.

Orphanage Rd Bridge/Greenway. This fund is used to account for the development of a greenway and bridge construction on Orphanage Road.

The City reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the City’s water and sewer operations. The City maintains twelve separate water and sewer capital project funds for accounting purposes: Water and Sewer Capital Project V Fund, Highway 73 Water Line, Shiloh Church Road Extension, Kannapolis Downtown Water System Improvements Fund, Albemarle Water Line Fund, EECBG WTP Pump Retrofit Fund, Second Creek Pump Station Improvements Fund, Tropical Storm Fay Damage Fund, Lane Street Sewer Line Fund, Kannapolis Lake Dam Improvements Fund, WTP Rehabilitation Project, and Capital Equipment 2011 Fund. For financial reporting purposes, these funds have been consolidated into the Water and Sewer Fund.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Stormwater Fund. This fund is used to account for the City's stormwater operations. The City maintains two separate stormwater capital project funds for accounting purposes: the Stormwater Capital Equipment Project Fund and 8th Street Culvert Replacement Fund. For financial reporting purposes, these funds have been consolidated into the Stormwater Fund.

Environmental Services Fund. This fund is used to account for the City's environmental services operations.

The City reports the following fund types:

Fiduciary Funds - account for assets held by the government in a trustee capacity or an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

Fiduciary funds include the following fund type:

Pension Trust Fund - is accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The City has one Pension Trust Fund, the *Separation Pay Fund*, which is used to account for the accumulation of resources for special separation allowance payments to qualified City employees.

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, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using 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. Non-exchange 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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of 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 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Cabarrus County and Rowan County are responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in those counties, including the City of Kannapolis. For registered motor vehicles, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Cabarrus and Rowan County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the City funds certain programs by a combination of specified cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are 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 by general revenues.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

D. Budgetary Data

The City's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the General Fund, Transit Tax Fund, and the enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Community Development Block Grant Fund, the capital project funds, and the enterprise fund capital project funds, which are consolidated with the operating funds for reporting purposes.

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions to a fund which increase total appropriations. All amendments must be approved by the governing board. The City Manager has authority to alter appropriations within a fund without Council approval.

During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity

Deposits and Investments

All deposits of the City are made in Board-designated official depositories and are secured as required by State law (G.S. 159-31). The City may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. State law (G.S. 159-30(c)) authorizes the City 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's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings and investment contracts are reported at cost.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Cash and Cash Equivalents

The City pools monies 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.

Restricted Assets

The unexpended debt proceeds of the General Fund, enterprise funds, and capital project funds for debt issued by the City are classified as restricted assets because their use is restricted to the purpose for which the debt was originally issued. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4.

Ad Valorem Taxes Receivable and Deferred Revenues

In accordance with State laws (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes 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, 2012. As allowed by State law, the City has established a schedule of discounts that applies to taxes which are paid prior to the due date. In the General Fund, ad valorem tax revenues are reported net of such discounts.

Allowance for Doubtful Accounts

All receivables that have historically experienced 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.

Interfund Receivables/Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Prepaid Items

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 are expensed as the items are used.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 \$250,000 for general infrastructure and \$5,000 for other capital asset classifications. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The City has elected not to capitalize monuments and works of art that are held for public exhibition.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements	25 years
Plants and distribution systems	50 years
Vehicles and service equipment	5 years
Furniture and equipment	7 years

Interest is capitalized on Enterprise Fund capital assets financed by tax-exempt debt, if material. The amount capitalized is reduced by offsetting the interest expense by the interest revenues from unspent funds from the date of issue until completion of the project.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net 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 does not have an item that meets this criterion. In addition to liabilities, the Statement of Net 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 three items that meet the criterion for this category – prepaid taxes, other unavailable revenues, and property taxes receivable.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bond issuance costs are expensed in the reporting period in which they are incurred except for prepaid insurance which are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policies of the City provide for the accumulation of up to thirty days earned vacation leave, with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. 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 policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

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 represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through State statute.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Non-Spendable 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 in tact.

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

Restricted Fund Balance

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

Stabilization for State Statute – portion of fund balance that is not an available resource for appropriation in accordance with State law [G.S. 159-8(a)].

Restricted for Streets - Powell Bill – portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Public Safety – portion of fund balance restricted by revenue source for public safety related activities such as police and fire.

Restricted for Community Development – portion of fund balance restricted by revenue source for community development activities.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Restricted fund balance at June 30, 2013 is as follows:

<u>Purpose</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>
Restricted, All Other:		
Streets	\$ 660,796	\$ -
Public safety	63,193	-
Community development	-	795,679
Total	<u>\$ 723,989</u>	<u>\$ 795,679</u>

Committed Fund Balance

This classification represents the portion of fund balance that can only be used for specific purposes determined by a formal action of the government’s highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that 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 action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for Community Development – portion of fund balance budgeted by the City Council to be used for community development activities.

Committed for Capital Projects – portion of fund balance budgeted by the City Council to be used for capital project expenditures related to the City Office/Public Safety Building Fund.

Committed fund balance at June 30, 2013 is as follows:

<u>Purpose</u>	<u>Other Governmental Funds</u>	<u>NCRC Project Development Financing 2010</u>
Community development	\$ 8,220	-
Capital projects	3,671,678	5,688,211
Total	<u>\$ 3,679,898</u>	<u>\$ 5,688,211</u>

Assigned Fund Balance

Assigned fund balance is the portion of fund balance that the City of Kannapolis intends to use for specific purposes. The City's governing body has the authority to assign fund balance.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Unassigned Fund Balance

Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes within the General Fund.

The City of Kannapolis has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Director will use resources in the following hierarchy: debt proceeds, federal funds, State funds, local non-City funds, and/or City funds. For purposes of fund balance classification, expenditures are to be 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 policy if it is in the best interest of the City or when required by grant or other contractual agreements.

The City has not officially adopted a fund balance policy.

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

Total fund balance - General Fund	\$ 9,040,813
Less:	
Prepaid items	(50,077)
Stabilization by State statute	<u>(1,561,037)</u>
Fund balance available for appropriation	<u>\$ 7,429,699</u>

The City considers restricted, committed, assigned, unassigned and unrestricted amounts to have been spent when an expenditure is incurred for purposes of determining when amounts are available or could be used.

Revenues, Expenditures, and Expenses

Other Resources

The General Fund provides the basis of local resources for other governmental funds. These transactions are recorded as "Transfers - out" in the Disbursing Fund and "Transfers - in" in the Receiving Fund.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

2. Detail Notes on All Funds

A. Assets

Deposits

All of the deposits of the City 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 agents in the City's name. 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, these deposits are considered to be held by the City's agent in its name. 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 or with the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City under the Pooling Method, the potential exists for undercollateralization, 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 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.

At June 30, 2013, the City's deposits had a carrying amount of \$1,355,514 and a bank balance of \$1,608,185. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$1,358,185 was covered by collateral held under the Pooling Method. At June 30, 2013, the City's petty cash fund totaled \$3,359.

Investments

At June 30, 2013, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than One Year</u>
NC Capital Management Trust - Cash Portfolio	\$ 5,772,636	\$ 5,772,636
NC Capital Management Trust - Term Portfolio	9,887,803	9,887,803
US Government Obligations	8,569,653	8,569,653
Total	<u>\$ 24,230,092</u>	<u>\$ 24,230,092</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Interest Rate Risk. The City has a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The policy limits investments to a maximum of five years.

Credit Risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSRO's); however, the City had no formal policy on managing credit risk. The City's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard and Poor's as of June 30, 2013. The City's investment in the NC Capital Management Trust Term Portfolio was not rated at June 30, 2013. The City's investments in US Government Obligations are rated A1P1 by Moody's Investors Service.

Receivables

Receivables at the government-wide level at June 30, 2013 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 15,515	\$ 1,548,617	\$ 1,856,655	\$ 3,420,787
Governmental	<u>227,812</u>	<u>-</u>	<u>161,800</u>	<u>389,612</u>
Total receivables	243,327	1,548,617	2,018,455	3,810,399
Allowance for doubtful accounts	<u>-</u>	<u>(374,894)</u>	<u>-</u>	<u>(374,894)</u>
Total	<u>\$ 243,327</u>	<u>\$ 1,173,723</u>	<u>\$ 2,018,455</u>	<u>\$ 3,435,505</u>
Business-Type Activities:				
Water and sewer	\$ 4,526,547	\$ -	\$ 53,875	\$ 4,580,422
Stormwater	359,894	-	16,809	376,703
Environmental services	205,180	-	3,408	208,588
Allowance for doubtful accounts	<u>(741,833)</u>	<u>-</u>	<u>-</u>	<u>(741,833)</u>
Total	<u>\$ 4,349,788</u>	<u>\$ -</u>	<u>\$ 74,092</u>	<u>\$ 4,423,880</u>

The due from other governments that is owed to the City consists of the following:

Local option sales tax	\$ 1,091,814
Grants	309,915
Other	<u>690,818</u>
Total	<u>\$ 2,092,547</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Capital Assets

The following is a summary of changes in the governmental capital assets for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Transfers/ Retirements	Balance June 30, 2013
Non-Depreciable Capital Assets:				
Land	\$ 9,825,807	\$ -	\$ -	\$ 9,825,807
Construction in progress	20,415,996	3,474,478	(5,225,151)	18,665,323
Total non-depreciable capital assets	30,241,803	3,474,478	(5,225,151)	28,491,130
Depreciable Capital Assets:				
Buildings and improvements	15,995,880	936,660	17,590	16,950,130
Other improvements	2,856,764	78,867	4,197,583	7,133,214
Machinery and equipment	15,466,855	1,592,739	(1,729,973)	15,329,621
Infrastructure	147,760,819	139,260	1,009,978	148,910,057
Total depreciable capital assets	182,080,318	2,747,526	3,495,178	188,323,022
Less Accumulated Depreciation:				
Building and improvements	2,708,829	494,132	-	3,202,961
Other improvements	864,091	63,660	-	927,751
Machinery and equipment	12,163,051	1,107,186	1,701,609	11,568,628
Infrastructure	56,082,179	2,325,954	-	58,408,133
Total accumulated depreciation	71,818,150	3,990,932	1,701,609	74,107,473
Total depreciable capital assets, net	110,262,168	\$ (1,243,406)	\$ (3,431,582)	114,215,549
Total capital assets, net	\$ 140,503,971			\$ 142,706,679

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

General government	\$ 352,014
Public safety	767,517
Public works	2,322,065
Parks and recreation	549,336
Total depreciation expense	\$ 3,990,932

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

The following is a summary of changes in the business-type capital assets for the year ended June 30, 2013.

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Water-Sewer Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 730,342	\$ -	\$ -	\$ 730,342
Construction in progress	<u>2,209,222</u>	<u>95,619</u>	<u>(1,547,920)</u>	<u>756,921</u>
Total non-depreciable capital assets	<u>2,939,564</u>	<u>95,619</u>	<u>(1,547,920)</u>	<u>1,487,263</u>
Depreciable Capital Assets:				
Buildings	22,778,854	122,000	(41,367)	22,859,487
Distribution systems	82,580,293	642,207	1,547,913	84,770,413
Machinery and equipment	<u>2,195,211</u>	<u>277,924</u>	<u>(200,655)</u>	<u>2,272,480</u>
Total depreciable capital assets	<u>107,554,358</u>	<u>1,042,131</u>	<u>1,305,891</u>	<u>109,902,380</u>
Less Accumulated Depreciation:				
Buildings	6,791,082	543,927	(5,319)	7,329,690
Distribution systems	24,332,896	1,682,709	(50)	26,015,555
Machinery and equipment	<u>1,965,221</u>	<u>76,309</u>	<u>(236,660)</u>	<u>1,804,870</u>
Total accumulated depreciation	<u>33,089,199</u>	<u>\$ 2,302,945</u>	<u>\$ (242,029)</u>	<u>35,150,115</u>
Total depreciable capital assets, net	<u>74,465,159</u>			<u>74,752,265</u>
Total Water and Sewer Fund capital assets, net	<u>77,404,723</u>			<u>76,239,528</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Stormwater Fund:				
Non-Depreciable Capital Assets:				
Construction in progress	160,030	\$ 298,292	\$ (29,759)	428,563
Total non-depreciable capital assets	<u>160,030</u>	<u>298,292</u>	<u>(29,759)</u>	<u>428,563</u>
Depreciable Capital Assets:				
Machinery and equipment	635,608	81,591	-	717,199
Infrastructure	6,296,183	-	-	6,296,183
Total depreciable capital assets	<u>6,931,791</u>	<u>81,591</u>	<u>-</u>	<u>7,013,382</u>
Less Accumulated Depreciation:				
Machinery and equipment	385,655	71,402	-	457,057
Infrastructure	2,220,807	107,786	-	2,328,593
Total accumulated depreciation	<u>2,606,462</u>	<u>\$ 179,188</u>	<u>\$ -</u>	<u>2,785,650</u>
Total depreciable capital assets, net	<u>4,325,329</u>			<u>4,227,732</u>
Total Stormwater Fund capital assets, net	<u>4,485,359</u>			<u>4,656,295</u>
Total business-type capital assets, net	<u>\$ 81,890,082</u>			<u>\$ 80,895,823</u>

Proprietary Intangible Assets

The intangible assets of the Water and Sewer Fund at June 30, 2013 were as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Intangible Assets:				
Rowan County water rights	\$ 2,411,100	\$ -	\$ -	\$ 2,411,100
Less accumulated amortization	<u>(482,220)</u>	<u>(48,222)</u>	-	<u>(530,442)</u>
Intangible assets, net	<u>\$ 1,928,880</u>	<u>\$ (48,222)</u>	<u>\$ -</u>	<u>\$ 1,880,658</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

B. Liabilities

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The City contributes to the State-wide Local Governmental Employee's Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.44% and 6.41%, respectively, of annual covered payroll. The contribution requirements of members and of the City of Kannapolis are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$868,100, \$858,929, and \$781,483, respectively. The contributions made by the City equaled the required contributions for each year.

Law Enforcement Officers' Special Separation Allowance

Plan Description. The City administers a public employee retirement system (the "e-employer defined benefit pension plan that provides retirement benefits to the City's qualified full-time employees. The Separation Allowance is equal to .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. The Separation Allowance is reported in the City's report as a Pension Trust Fund. A separate report was not issued for the plan. All full-time employees of the City are covered by the Separation Allowance. At December 31, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	22
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>310</u>
Total	<u><u>332</u></u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Summary of Significant Accounting Policies

Basis of Accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Investments are reported at fair value. Short-term debt, deposits, repurchase agreements, and the North Carolina Capital Management Trust investments are reported at cost or amortized cost, which approximates fair value. Certain longer term United States government and United States agency securities are valued at the last reported sales price.

Contributions. The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits to law enforcement officers and has elected to cover all City employees. The City has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$270,000, or 2% of annual covered payroll. 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 annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return and (b) projected salary increases ranging from 4.5% to 7.85% per year for law enforcement officers and ranging from 4.25% to 8.55% per year for firefighters and 4.25%-7.75% for general employees. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was the market value. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2011 was 19 years.

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

Employer annual required contribution	\$ 395,639
Interest on net pension obligation	49,005
Adjustment to annual required contribution	<u>(60,993)</u>
Annual pension cost	383,651
Employer contributions made	
for fiscal year ended June 30, 2013	<u>270,000</u>
Increase (decrease) in net pension obligation	113,651
Net pension obligation:	
Beginning of year - July 1	<u>980,099</u>
End of year - June 30	<u>\$ 1,093,750</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Three-Year Trend Information			
Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 293,141	102.68%	\$ 887,163
2012	366,765	74.66%	980,099
2013	383,651	70.38%	1,093,750

Funded Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date, the plan was 4.3% funded. The actuarial accrued liability for benefits was \$3,975,556, and the actuarial value of assets was \$170,783, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,804,773. The covered payroll (annual payroll of active employees covered by the plan) was \$13,411,478, and the ratio of the UAAL to the covered payroll was 28.37 percent.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing, over time, relative to the actuarial accrued liability for benefits.

Supplemental Retirement Income Plan 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 Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013 were \$270,885, which consisted of \$188,411 from the City and \$82,474 from the law enforcement officers.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Firemen's and Rescue Squad Workers' Relief Fund

Plan Description. The State of North Carolina contributes, on behalf of the City, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible firefighters that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The City has complied with changes in the laws which govern the City's deferred compensation plan, requiring all assets of the plan to be held in trust for the exclusive benefit of the participants, and their beneficiaries. Formerly, the undistributed amounts, which had been deferred by the plan participants, were required to be reported as assets of the City. In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the City's deferred compensation plan is no longer reported within the City's agency funds. The City contributes to the plan on behalf of the City Manager. During the year ended June 30, 2013, the City contributed \$6,631 to this account.

Other Post-Employment Benefits

Plan Description. The City has established a policy as a single-employer defined benefit plan providing group medical and dental benefits to employees eligible to retire under the requirements of the Local Government Employees' Retirement System noted above. Currently, sixty-six (66) retirees are eligible. The benefit provided by the City varies from 0% to 75% of the monthly premium, depending on years of service. The retiree is required to make up the

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

difference in the benefit provided and the actual cost of the insurance. The coverage provided is the same type as was in effect immediately preceding the retirement date. If the retiree is or becomes eligible for Medicare, the City's policy pays secondary to Medicare. The City finances these benefits on a pay-as-you-go basis. For the year ended June 30, 2013, expenditures under the plan were \$303,804. A separate report was not issued for the plan.

Membership of the Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers	Firefighters
Retirees and dependents receiving benefits	61	-	-
Terminated plan members entitled to, but not yet receiving, benefits	-	-	-
Active plan members	125	80	84
Total	186	80	84

Funding Policy. Depending on the length of creditable service at the time of retirement, the City's contribution for retiree healthcare benefits ranges from -0% to 75% of the monthly premium. The City's members pay the current active employee rate for dependent coverage, if the retiree elects to purchase the coverage. The City has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 21% of annual covered payroll. For the current year, the City contributed \$303,804, or 2% of annual covered payroll. Employee health coverage is self-insured and administered through a third-party insurer.

Summary of Significant Accounting Policies. Post-employment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB 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 No. 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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 obligation for the healthcare benefits:

Annual required contribution	\$	2,789,218
Interest on net OPEB obligation		203,184
Adjustments to annual required contribution		<u>(194,104)</u>
Annual OPEB cost (expense)		2,798,298
Contributions made		<u>(303,804)</u>
Increase (decrease) in net OPEB obligation		2,494,494
Net OPEB obligation:		
Beginning of year - July 1		<u>5,079,602</u>
End of year - June 30	\$	<u><u>7,574,096</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 were as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 1,872,944	26.1%	\$ 4,006,810
2012	1,872,944	42.7%	5,079,602
2013	2,798,298	10.9%	7,574,096

Funding Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$28,628,936. The covered payroll (annual payroll of active employees covered by the plan) was \$13,000,134, and the ratio of the UAAL to the covered payroll was 220.2 percent.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability 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 information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 include the 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, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included (a) 4% investment rate of return, which included an inflation component of 3% and (b) a 8.5%-5.0% pre-Medicare trend rate and 6.25%-5.0% post-Medicare trend rate with 2018 as the year of ultimate trend rate. The actuarial value of assets was determined using the market value of assets. The UAAL is being amortized as a level percentage of projected pay on an open basis. The remaining amortization period at December 31, 2012 was 30 years.

As of June 30, 2013, management had not decided on the funding options for this outstanding obligation; therefore, OPEB will continue to be funded on a pay-as-you-go basis going into the next fiscal year. Management will continue their efforts to find a way to fund the annual required contribution while maintaining the level of service as prioritized by the City Council.

Other Employment Benefits

The City has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death, are eligible for death benefits. Lump-sum death benefit payments are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. The contributions to the Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The City considers these contributions to be immaterial.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Deferred Inflows of Resources

The balances in deferred inflows of resources in the governmental funds statement and in the Statement of Net Position are comprised of the following elements:

	Unavailable Revenues	Unearned Revenues
General Fund:		
Prepaid taxes	\$ -	\$ 41,621
Taxes receivable	1,173,723	-
Cabarrus County contribution - fire station	322,956	-
Other Governmental Funds:		
CDBG loan receivable	227,556	-
Total	\$ 1,724,235	\$ 41,621

Long-Term Obligations

The City records long-term debt of the governmental funds at face value in the government-wide Statement of Net Position. Principal and interest payments are appropriated when due. Compensated absences, net pension obligation and other post-employment benefits typically have been liquidated in the General Fund.

Changes in Long-Term Debt – Governmental Funds

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Current Portion
Notes payable	\$ 11,357,867	\$ 7,565,514	\$ 7,329,248	\$ 11,594,133	\$ 1,430,629
U.S. government obligations	1,180,000	-	174,000	1,006,000	179,000
Limited obligation bonds	34,425,000	-	1,300,000	33,125,000	1,440,000
Compensated absences	760,784	498,100	416,743	842,141	640,027
Other post-employment benefits	3,986,667	2,306,304	303,804	5,989,167	-
Net pension obligation	980,099	383,651	270,000	1,093,750	-
Total	\$ 52,690,417	\$ 10,753,569	\$ 9,793,795	\$ 53,650,191	\$ 3,689,656

Total debt used in the calculation of net investment in capital assets, for governmental activities is reduced by unexpended debt proceeds of \$8,504,543.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Governmental Activities - Notes Payable

4.16% note, payable in semi-annual installments of \$153,333, including interest beginning June 1998 through December 2013; secured by public works facility. Half of the obligation is funded by the enterprise funds and half by the General Fund.	\$ 76,667
Various notes payable secured by personal property. See schedule below for terms and portion funded by the Enterprise Fund and a portion funded by the General Fund.	1,344,244
2.08% note, payable in semi-annual installments of \$82,190, excluding interest beginning September, 2013 through March 2023; secured by a municipal building and a fire truck	1,626,981
2.0% note, payable in semi-annual installments of \$26,133, excluding interest beginning October 2012 through June 2021; secured by park building	418,133
1.98% note, payable in semi-annual installments ranging from \$109,245 to \$414,098, including interest beginning June, 2013 through June, 2023; secured by street improvements and a fire station	5,128,108
0% note, payable to County in annual installments of \$62,500, beginning April 2014 through April 2061, secured by the stadium	<u>3,000,000</u>
Total	<u>\$ 11,594,133</u>

Various notes payable are serviced jointly by governmental and enterprise funds.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

The City executed the following obligations under installment purchase agreements with various financial institutions. The obligations were used to purchase water and sewer, firefighting, street, parks and recreation, and police equipment.

<u>Date Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Annual Payments</u>		<u>Balance June 30, 2013</u>	
			<u>General Fund</u>	<u>Enterprise Fund</u>	<u>General Fund</u>	<u>Enterprise Fund</u>
Sept 2006	3.75%	Aug 2011	\$ 27,612	\$ 5,476	\$ -	\$ -
Nov 2007	3.45%	Oct 2012	421,982	294,447	-	-
Nov 2008	3.16%	Oct 2013	432,410	21,088	151,967	7,357
Feb 2010	3.17%	Feb 2017	129,845	-	529,275	-
June 2011	1.81%	June 2014	110,926	-	115,005	-
June 2011	2.22%	June 2016	-	158,809	-	509,228
June 2011	4.05%	June 2025	42,154	94,090	547,997	1,223,165
Total					<u>\$ 1,344,244</u>	<u>\$ 1,739,750</u>

Annual debt service requirements to maturity for the City's governmental activities notes payable are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,430,629	\$ 175,890	\$ 1,606,519
2015	1,083,329	153,407	1,236,736
2016	1,077,442	130,442	1,207,884
2017	1,021,289	107,735	1,129,024
2018	909,391	88,556	997,947
2019-2023	3,599,514	195,884	3,795,398
2024-2028	438,962	8,322	447,284
2029-2033	312,500	-	312,500
2034-2028	312,500	-	312,500
2039-2043	312,500	-	312,500
2044-2048	312,500	-	312,500
2049-2053	312,500	-	312,500
2054-2058	312,500	-	312,500
2059-2061	158,577	-	158,577
Total	<u>\$ 11,594,133</u>	<u>\$ 860,236</u>	<u>\$ 12,454,369</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Governmental Activities - U.S. Government Obligations

A Section 108 loan of \$1,658,000 was executed on August 9, 2001 with the Department of Housing and Urban Development. A principal payment of \$120,000 was due August 2013. Principal payments increase in \$5,000 increments yearly until the last year of the loan, 2016, when the balance is due. Interest is due semi-annually at rates from 5.49% to 5.29% on February 1 and August 1. This obligation is to be used in the construction of Gateway Business Park. The principal balance due at June 30, 2013 was \$558,000.

A Section 108 loan of \$742,000 was executed on August 28, 2006 with the Department of Housing and Urban Development. A principal payment of \$49,000 is due August 2013. Principal payments are \$49,000 until 2015, when they increase to \$50,000. Interest is due semi-annually at rates from 4.96% to 5.57% on February 1 and August 1. This obligation is to be used in the construction of Gateway Business Park. The principal balance due at June 30, 2013 was \$448,000.

Annual debt service requirements to maturity for the City's U.S. obligations are as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ 179,000	\$ 26,779	\$ 205,779
2015	184,000	23,568	207,568
2016	190,000	19,950	209,950
2017	203,000	15,815	218,815
2018	50,000	12,280	62,280
2019-2022	200,000	22,069	222,069
Total	<u>\$ 1,006,000</u>	<u>\$ 120,461</u>	<u>\$ 1,126,461</u>

Limited Obligation Bonds

The City issued Series 2010A and 2010B Limited Obligation Bonds in December 2010. The City's Limited Obligation Bonds are serviced by a governmental Capital Project Fund and a Stormwater Capital Project Fund. As security for the 2010 Bonds, the City will execute and deliver a deed of trust, granting, among other things, a lien of record on the Mortgaged Property subject to permitted encumbrances. Each series of the 2010 Bonds will also be secured by a debt service reserve fund.

Approximately 50% of the Limited Obligation Bonds were issued to provide funds for the acquisition of property and construction of a new Health Department; operated and managed by the Cabarrus Health Alliance. The Health Alliance Building is a three-story, 62,503 square foot facility located on approximately 3.4 acres of land east of D Street and south of Juniper Street just west of its intersection with Dale Earnhardt Boulevard in the City. The remaining 50% of the Limited Obligation Bonds were issued with the intention to provide funds for the

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

construction of various infrastructure projects. These projects generally include, but are not limited to, water, sewer and storm water infrastructure improvements, street, sidewalk and streetscape improvements and park and recreation improvements. As the development of the NCRC continues in the future, the City will consider financing additional infrastructure projects as may be necessary to support such development.

The City’s limited obligation bonds payable at June 30, 2013 are comprised of the following individual issues:

- Series 2010A Limited Obligation Bonds \$13,815,000
- Series 2010B Limited Obligation Bonds \$19,310,000

Governmental Activities – Limited Obligation Bonds

\$35,000,000 Series 2010A and 2010B Limited Obligation Bonds, issued in December 2010, due in annual installments ranging from \$575,000 to \$4,770,000 on March 1, through 2027. Interest is payable semi-annually at rates ranging from 3% to 5%, fluctuating throughout the life of the bonds. The City also receives a 35% Build America Bond (BAB) subsidy from the federal government through March 1, 2027.

\$ 33,125,000

Annual debt service requirements to maturity for the City's Limited Obligation Bonds for governmental activities are as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ 1,440,000	\$ 2,066,268	\$ 3,506,268
2015	1,585,000	2,008,668	3,593,668
2016	1,655,000	1,945,268	3,600,268
2017	1,735,000	1,862,518	3,597,518
2018	1,825,000	1,775,768	3,600,768
2019-2023	12,345,000	7,012,658	19,357,658
2024-2027	<u>12,540,000</u>	<u>2,537,808</u>	<u>15,077,808</u>
Total	<u>\$ 33,125,000</u>	<u>\$ 19,208,956</u>	<u>\$ 52,333,956</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Changes in Long-Term Debt - Business-Type Activities

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Maturities</u>
Revenue bonds	\$ 17,620,006	\$ -	\$ 1,253,104	\$ 16,366,902	\$ 1,387,555
Notes payable	8,718,447	5,848,957	5,423,019	9,144,385	1,210,729
Other post-employment benefits	1,092,935	491,994	-	1,584,929	-
Compensated absences	121,422	96,977	89,593	128,806	97,893
Total	<u>\$ 27,552,810</u>	<u>\$ 6,437,928</u>	<u>\$ 6,765,716</u>	<u>\$ 27,225,022</u>	<u>\$ 2,696,177</u>

Total debt used in the calculation of invested in capital assets, net of related debt, for business-type activities is reduced by unexpended debt proceeds of \$831,436 for the Stormwater fund.

At June 30, 2013, the City had no authorized, but unissued, debt and a legal debt margin of \$214,123,261.

Revenue Bonds

On November 1, 2011, the City issued \$16,300,300 in 2011 Refunding Revenue Bonds. The proceeds were used to advance refund \$18,740,000 of outstanding Combined Enterprise System Revenue Bonds, Series 2001A and 2001B. The net proceeds of \$16,300,300 (after payment of \$367,562 for underwriter fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. Additional funds still held in escrow related to the original 2001 issue were also deposited in the irrevocable trust with the escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, \$18,740,000 of the Combined Enterprise System Revenue Bonds, Series 2001A and 2001B is considered defeased and the respective liabilities for those bonds has been removed from the statement of net position. The City advance refunded Combined Enterprise System Revenue Bonds, Series 2001A and 2001B to reduce its annual total debt service payments by \$3,042,227 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$2,488,000.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

The City issues bonds where it pledges income derived from the acquired or constructed assets to pay debt service. The revenue bonds outstanding are being retired by the resources of the Water and Sewer Fund. Revenue bonds outstanding at year-end are as follows:

\$5,324,000 Enterprise System Revenue Bonds, Series 2002, with an interest only payment in February of 2003, and equal payments of \$235,922 semi-annually, August 1 and February 1 starting in 2003 until 2018; interest rate is 3.89%	\$ 2,125,302
\$16,300,300 Combined Enterprise System Revenue Bonds, Refunding Series 2011, due annually in amounts ranging from \$875,000 to \$1,420,000 through February 2025, interest rate of 2.85%	<u>14,241,600</u>
Total	<u>\$ 16,366,902</u>

Annual debt service requirements to maturity for business-type revenue bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ 1,387,555	\$ 484,775	\$ 1,872,330
2015	1,429,189	440,995	1,870,184
2016	1,474,530	395,861	1,870,391
2017	1,527,301	349,262	1,876,563
2018	1,573,027	300,980	1,874,007
2019-2023	6,177,700	941,775	7,119,475
2024-2027	<u>2,797,600</u>	<u>120,202</u>	<u>2,917,802</u>
Total	<u>\$ 16,366,902</u>	<u>\$ 3,033,850</u>	<u>\$ 19,400,752</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

The City has been in compliance with the covenants as to rates, fees, rentals, and charges in Section 6.6 of the Bond Order, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 2002 and Series 2011 since their adoption. Section 6.6 of the Bond Order requires the debt service parity coverage ratio to be no less than 120% and 110% and the total debt service coverage ratio to be no less than 100%. Additional indebtedness constituted by the Series 2002 and Series 2011 revenue bonds is to be considered in the calculation of the debt service parity coverage ratio. The debt service parity coverage ratio calculation for the year ended June 30, 2013 is as follows:

2014 budgeted revenues	\$ 14,693,665
50% of surplus fund at June 30, 2013	500,000
2014 budgeted expenses*	<u>(8,972,304)</u>
Operating income	<u>\$ 6,221,361</u>
Debt service on parity indebtedness	\$ 2,246,796
Debt service on subordinate indebtedness	<u>578,443</u>
	<u>\$ 2,825,239</u>
Debt service parity coverage ratio	220%
2014 budgeted revenues	\$ 14,693,665
2014 budgeted expenses*	<u>(8,972,304)</u>
Operating income	<u>\$ 5,721,361</u>
Debt service on parity indebtedness	\$ 2,059,562
Debt service on subordinate indebtedness	<u>578,443</u>
	<u>\$ 2,638,005</u>
Debt service parity coverage ratio	217%

* Excludes debt service, transfers out and general management expense allocation

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$21,624,300 in water and sewer system revenue bonds issued in 2002 and 2011. Proceeds from the bonds provided financing for water and sewer extensions and water treatment plant renovations. The bonds are payable solely from water and sewer customer net revenues and are payable through 2026. Annual principal and interest payments on the bonds are expected to require about 17 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$19,400,752. Principal and interest paid for the current year and total customer net revenues were \$1,779,186 and \$14,135,333, respectively.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Business-Type Activities - Notes Payable

5.85% note, payable in annual installments of \$86,800 due in May with interest payable semi-annually, beginning May 1995 through November 2016; secured by water and sewer distribution assets. Note was issued by the State Clean Water Program.	\$ 282,100
4.16% note, payable in semi-annual installments of \$153,333, including interest beginning June 1998 through December 2013; secured by public works facility. Half of the obligation is funded by the enterprise funds and half by the General Fund.	76,667
4.09% note, payable in annual installments of \$76,633, plus interest beginning September 2007 through September 2021; secured by water improvements associated with the North Carolina Research Campus Development	689,700
3.48% note, with one payment of \$32,041 made October 2008, then payable in semi-annual installments of \$31,794, including interest beginning April 2009 through April 2023; secured by water improvements	536,483
2.48% note, payable in annual installments of \$15,000 beginning May 2013 through May 2032 with interest payable semi-annually, beginning November 2012 through May 2032; secured by water pump station. Note was issued by NCDENR.	288,262
1.98% note, payable in semi-annual installments ranging \$13,904 to \$52,703, including interest beginning June, 2013 through June, 2023; secured by street and stormwater improvements	658,079
2.08% note, payable in semi-annual installments ranging \$64,595 to \$77,490, including interest beginning September 2013 through March 2023; secured by street and Stormwater improvements	1,283,019
1.98% note, payable in semi-annual installments ranging from \$75,478 to \$286,104, including interest beginning June, 2013 through June, 2023; secured by street and Stormwater improvements	3,590,325
Various notes payable secured by personal property. See schedule above for terms and portion funded by the enterprise funds and a portion funded by the General Fund.	<u>1,739,750</u>
Total	<u>\$ 9,144,385</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Annual debt service requirements to maturity for business-type notes payable are as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ 1,210,729	\$ 224,132	\$ 1,434,861
2015	1,125,445	198,446	1,323,891
2016	1,122,508	170,914	1,293,422
2017	877,860	145,227	1,023,087
2018	849,092	123,490	972,582
2019-2023	3,510,962	307,833	3,818,795
2024-2028	434,658	31,804	466,462
2029-2032	13,131	2,232	15,363
Total	\$ 9,144,385	\$ 1,204,078	\$ 10,348,463

Operating Leases

The City is committed under operating leases for office space, equipment, and other facilities. For the year ended June 30, 2013, lease expenditures amounted to \$367,579. Future minimum payments under these leases are as follows:

Year Ending June 30	Amount
2014	\$ 143,041
2015	132,891
2016	130,443
Total	\$ 406,375

3. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2013 consist of the following:

Due To/ From Fund	Receivable (Payable) Amount	Purpose
General	\$ 11,823	
Nonmajor governmental funds:		
Capital Projects - Dale Earnhardt Blvd Sidewalk	(11,823)	Advance for capital projects

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Interfund transfers for the fiscal year ended June 30, 2013 consist of the following:

	From	To	Purpose
General Fund	\$ 767,010		
Nonmajor governmental funds:			
Transit Fund		\$ 285,263	Operating expenditures
Dale Earnhardt Blvd Sidewalk		78,050	Capital expenditures
Orphanage Rd. Bridge/Greenway		191,522	Capital expenditures
Three Bridge Project		1,175	Capital expenditures
James Street Area Plan		1,000	Grant match
Rogers Lake Road - RR Crossing		210,000	Capital expenditures
Nonmajor governmental funds:			
Village Park Train	32,828		Close out projects
Historic Preservation	54,026		Close out projects
Firefighters Assistance	378		Close out projects
Dakota Street Bridge Improvements	233,325		Close out projects
FEMA Pre-Disaster Mitagation Grant	83		Close out projects
FY 10 & FY 11 Recovery Act Bryne	327		Close out projects
Stadium Drive Bridge Repairs	21,053		Close out projects
Cemetery Village Park Parking Lot	48		Close out projects
Capital Equipment 2011	3,916		Close out projects
Tropical Storm Fay	103		Close out projects
General Fund		346,087	
Water/Sewer	1,175,000		
Environmental Services Fund		650,000	Operating expenditures
Stormwater Fund		175,000	Operating expenditures
General Fund		350,000	Operating expenditures
General Fund	1,900,000		
Environmental Services Fund		1,400,000	Operating expenditures
Environmental Services Fund		500,000	Operating expenditures
NCRC Project Development Financing	3,800,000		
City Office/ Public Safety Building		3,800,000	Capital expenditures
Environmental Service Fund	500,000		Operating expenditures
General Fund		500,000	
Stormwater	1,097,755		
NCRC Project Development Financing	-	1,097,755	Capital expenditures
Total	\$ 9,585,852	\$ 9,585,852	

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

4. Revenues, Expenditures, and Expenses

On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2013, the City has recognized on-behalf payments for pension contributions made by the State as revenue and an expenditure of \$19,926 for the 54 firefighters in the City's Fire Department. The employees elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

5. Jointly Governed Organizations

The City, in conjunction with 8 counties and 50 other municipalities established the Centralina Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The City paid membership fees of \$10,017 to the Council during the fiscal year ended June 30, 2013.

The City, Cabarrus County, and three other municipalities established the Water and Sewer Authority of Cabarrus County (WSACC). WSACC was established to provide water and sewer services to the citizens of Cabarrus County. The City appoints two members to the ten-member Board. The City purchased sewer transportation services amounting to \$2,665,460 from WSACC for the year ended June 30, 2013.

6. Significant Economic Dependence

The Enterprise Fund is dependent upon another governmental entity, the Water and Sewer Authority of Cabarrus County (WSACC), for sewer transportation services.

7. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has a self-funded workers' compensation insurance plan. The City carries commercial insurance to cover all other risks.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

The City’s coverage is as follows:

Property	\$82,814,022 property, inland marine - equipment \$2,409,478, computer equipment/media \$2,062,154, fine arts \$342,675, and portable equipment \$1,158,049
Police Official's Liability	\$1,000,000 per occurrence, \$3,000,000 aggregate
Public Official's Liability	\$1,000,000 per occurrence, \$3,000,000 aggregate
General Liability	\$5,000,000 per occurrence, \$5,000,000 aggregate
Automobile Liability	\$5,000,000
Workers' Compensation	Legal limits, \$500,000 retention
Employee Crime/Dishonesty	\$250,000 per occurrence
Employee Practices	\$1,000,000 per occurrence, \$3,000,000 aggregate
Finance Director Bond	\$50,000
Tax Collector	\$10,000
Employee Benefits Liability	\$1,000,000 per occurrence, \$1,000,000 aggregate
Liquor	\$1,000,000 per occurrence, \$1,000,000 aggregate

Employee health coverage is self-insured and administered through a third-party insurer. All full-time employees and eligible retirees receive coverage through a Preferred Provider Option Plan or consumer driven health plan.

The City does not carry flood insurance.

There have been no significant reductions in insurance coverage from the prior year, and claims have not exceeded coverage in any of the last 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 Finance Director and Tax Collector are each individually bonded for \$75,000. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported (IBNR’s).

Changes in the balances of claims liabilities for health insurance during the past fiscal year are as follows:

Unpaid claims:	
Beginning of year - July 1	\$ 107,549
Incurred claims	2,059,256
Claim payments	<u>(2,013,458)</u>
End of year - June 30	<u>\$ 153,347</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Changes in the balances of claims liabilities for workers' compensation insurance during the past fiscal year are as follows:

Unpaid claims:		
Beginning of year - July 1	\$	447,177
Incurred claims		537,575
Claim payments		<u>(629,368)</u>
End of year - June 30	\$	<u>355,384</u>

Claims typically have been liquidated in the General Fund.

8. Claims and Judgments

At June 30, 2013, the City was a defendant to various lawsuits. In the opinion of the City's Management and the City Attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

9. Summary Disclosure of Significant Contingencies

The City has received proceeds from several 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.

10. Change in Accounting Principle

The City implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement 65, items previously reported as Assets and Liabilities, in the fiscal year ended June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

Required Supplemental Financial Data

This section contains additional information required by generally accepted accounting principles.

Special Separation Allowance - Schedule of Funding Progress and
Schedule of Employer Contributions

Other Post-Employment Benefits - Schedule of Funding Progress and
Schedule of Employer Contributions

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CITY OF KANNAPOLIS, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Valuation of Assets (A)	Actuarial Accrued Liability (AAL) - Projected Unit Credit Method (B)	Funded Ratio (A/B)	Unfunded AAL (UAAL) (B-A)	Annual Covered Payroll (C)	UAAL as a Percentage of Covered Payroll (B-A) / C
12/31/2007	\$ 142,922	\$ 2,598,764	5.50%	\$ 2,455,842	\$ 10,015,403	24.52%
12/31/2008	163,079	2,801,646	5.82%	2,638,567	11,668,966	22.61%
12/31/2009	56,994	3,737,469	1.52%	3,680,475	12,177,773	30.22%
12/31/2010	1,128	3,492,402	0.03%	3,491,274	11,939,634	29.24%
12/31/2011	-	3,637,669	0.00%	3,637,669	12,285,668	29.61%
12/31/2012	170,783	3,975,556	4.30%	3,804,773	13,411,478	28.37%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Amount Contributed by Employer	Percentage of ARC Contributed
2008	\$ 220,174	\$ 232,900	105.78%
2009	216,059	232,900	107.79%
2010	240,007	232,900	97.04%
2011	296,307	301,000	101.58%
2012	375,331	273,829	72.96%
2013	395,639	270,000	68.24%

Notes to the Required Schedules:

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

Valuation date	December 31, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	
Law enforcement officers	4.25 - 7.85%
Firefighters	4.25 - 8.55%
General employees	4.25 - 7.75%
*Includes inflation at	3.00%
Cost-of-living adjustments	N/A

CITY OF KANNAPOLIS, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2007	\$ -	\$ 16,443,235	\$ 16,443,235	0.00%	\$ 10,015,403	164.2%
12/31/2009	-	19,485,853	19,485,853	0.00%	12,177,773	160.0%
12/31/2012	-	28,628,936	28,628,936	0.00%	13,000,134	220.2%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2009	\$ 1,595,265	8.6%
2010	1,595,265	27.0%
2011	1,858,549	26.3%
2012	1,858,549	43.1%
2013	2,789,218	10.9%

Notes to the Required Schedules:

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest valuation follows:

Valuation date	12/31/2012
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rates:	
Pre-Medicare trend rate	8.5% - 5.0%
Post-Medicare trend rate	6.25% - 5.0%
Year of Ultimate trend rate	2018

* Includes inflation at 3.0%

General Fund

The **General Fund** accounts for resources traditionally associated with governments that are not required legally or by sound financial management to be accounted for in other funds.

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CITY OF KANNAPOLIS, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Current year, net of refund	\$ 18,574,000	\$ 18,651,784	\$ 77,784
Prior year, net of refunds	325,000	380,309	55,309
Total	<u>18,899,000</u>	<u>19,032,093</u>	<u>133,093</u>
Other Taxes and Licenses:			
ABC mixed beverages	45,000	88,170	43,170
Vehicle licenses	330,750	323,328	(7,422)
Privilege licenses	220,000	283,830	63,830
Local option sales tax	5,800,000	6,212,206	412,206
Other taxes and licenses	100,000	89,491	(10,509)
Total	<u>6,495,750</u>	<u>6,997,025</u>	<u>501,275</u>
Unrestricted Intergovernmental:			
Sales tax refund	225,000	-	(225,000)
Franchise tax	1,950,000	1,840,520	(109,480)
Beer and wine	205,000	174,180	(30,820)
Food stamp reimbursement	16,000	12,640	(3,360)
Total	<u>2,396,000</u>	<u>2,027,340</u>	<u>(368,660)</u>
Restricted Intergovernmental:			
"State Street-Aid" allocation	1,225,000	1,244,815	19,815
Federal Emergency Management Agency	-	7,700	7,700
Public safety grants	1,042,370	962,757	(79,613)
TIF contribution Cabarrus County	1,421,804	1,421,804	-
Other federal and State grants	694,970	65,459	(629,511)
Total	<u>4,384,144</u>	<u>3,702,535</u>	<u>(681,609)</u>
Sales and Services:			
Public safety fees	118,838	117,958	(880)
Rents	87,500	92,126	4,626
Other fees	1,430,828	1,557,358	126,530
Total	<u>1,637,166</u>	<u>1,767,442</u>	<u>130,276</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Investment Earnings	124,225	105,420	(18,805)
Miscellaneous	739,591	909,291	169,700
Total revenues	<u>34,675,876</u>	<u>34,541,146</u>	<u>(134,730)</u>
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits	78,940	71,867	7,073
Operating expenditures	<u>35,100</u>	<u>36,538</u>	<u>(1,438)</u>
Total	<u>114,040</u>	<u>108,405</u>	<u>5,635</u>
City Manager:			
Salaries and employee benefits	671,483	628,381	43,102
Operating expenditures	687,995	655,031	32,964
Capital outlay	<u>40,400</u>	<u>20,200</u>	<u>20,200</u>
Total	<u>1,399,878</u>	<u>1,303,612</u>	<u>96,266</u>
Human Resources:			
Salaries and employee benefits	222,102	222,198	(96)
Operating expenditures	<u>74,410</u>	<u>59,006</u>	<u>15,404</u>
Total	<u>296,512</u>	<u>281,204</u>	<u>15,308</u>
Attorney:			
Salaries and employee benefits	199,286	199,231	55
Operating expenditures	<u>127,500</u>	<u>119,287</u>	<u>8,213</u>
Total	<u>326,786</u>	<u>318,518</u>	<u>8,268</u>
Finance:			
Salaries and employee benefits	476,964	453,790	23,174
Operating expenditures	302,239	254,590	47,649
Capital outlay	<u>250,000</u>	<u>127,319</u>	<u>122,681</u>
Total	<u>1,029,203</u>	<u>835,699</u>	<u>193,504</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Information Technology:			
Contract services	259,051	262,411	(3,360)
Operating expenditures	154,196	147,765	6,431
Capital outlay	6,100	6,100	-
Total	<u>419,347</u>	<u>416,276</u>	<u>3,071</u>
General Services:			
Operating expenditures	330,380	299,720	30,660
Capital outlay	5,000	-	5,000
Total	<u>335,380</u>	<u>299,720</u>	<u>35,660</u>
Non-Departmental:			
Operating expenditures	4,072,365	3,774,986	297,379
Capital Outlay	1,364,383	1,020,120	344,263
Contingency	140,205	-	140,205
Total	<u>5,576,953</u>	<u>4,795,106</u>	<u>781,847</u>
Total general government	<u>9,498,099</u>	<u>8,358,540</u>	<u>1,139,559</u>
Public Safety:			
Police:			
Salaries and employee benefits	5,271,019	5,225,319	45,700
Operating expenditures	1,776,368	1,485,772	290,596
Capital outlay	1,260,987	779,768	481,219
Total	<u>8,308,374</u>	<u>7,490,859</u>	<u>817,515</u>
Fire:			
Salaries and employee benefits	4,647,325	4,560,596	86,729
Operating expenditures	1,345,023	1,261,461	83,562
Capital outlay	552,252	551,557	695
Total	<u>6,544,600</u>	<u>6,373,614</u>	<u>170,986</u>
Total public safety	<u>14,852,974</u>	<u>13,864,473</u>	<u>988,501</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Public Works:			
Engineering:			
Salaries and employee benefits	353,913	352,501	1,412
Operating expenditures	44,450	50,031	(5,581)
Capital outlay	40,800	-	40,800
Contract services	<u>630,642</u>	<u>620,346</u>	<u>10,296</u>
Total	<u>1,069,805</u>	<u>1,022,878</u>	<u>46,927</u>
Operations:			
Salaries and employee benefits	140,761	129,987	10,774
Operating expenditures	<u>830,662</u>	<u>805,110</u>	<u>25,552</u>
Total	<u>971,423</u>	<u>935,097</u>	<u>36,326</u>
Powell Bill:			
Salaries and employee benefits	328,048	289,710	38,338
Operating expenditures	846,952	792,503	54,449
Capital outlay	<u>50,000</u>	<u>47,532</u>	<u>2,468</u>
Total	<u>1,225,000</u>	<u>1,129,745</u>	<u>95,255</u>
Total public works	<u>3,266,228</u>	<u>3,087,720</u>	<u>178,508</u>
Community Development:			
Planning:			
Operating expenditures	24,600	22,473	2,127
Contract services	<u>543,013</u>	<u>541,352</u>	<u>1,661</u>
Total	<u>567,613</u>	<u>563,825</u>	<u>3,788</u>
Code Enforcement:			
Contract services	<u>198,002</u>	<u>187,583</u>	<u>10,419</u>
Total community development	<u>765,615</u>	<u>751,408</u>	<u>14,207</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Parks and Recreation:			
Recreation:			
Salaries and employee benefits	804,556	777,604	26,952
Operating expenditures	691,028	640,555	50,473
Capital outlay	48,370	47,910	460
Total	<u>1,543,954</u>	<u>1,466,069</u>	<u>77,885</u>
Stadium:			
Operating expenditures	98,200	83,289	14,911
Total	<u>98,200</u>	<u>83,289</u>	<u>14,911</u>
Total parks and recreation	<u>1,642,154</u>	<u>1,549,358</u>	<u>92,796</u>
Debt Service:			
Principal retirement	8,803,248	8,803,248	-
Interest and fees	2,544,221	2,368,197	176,024
Total debt service	<u>11,347,469</u>	<u>11,171,445</u>	<u>176,024</u>
Total expenditures	<u>41,372,539</u>	<u>38,782,944</u>	<u>2,589,595</u>
Total revenues over (under) expenditures	<u>(6,696,663)</u>	<u>(4,241,798)</u>	<u>2,454,865</u>
Other Financing Sources (Uses):			
Long-term debt issued	7,565,534	7,565,514	(20)
Transfers in	1,198,765	1,197,888	(877)
Transfers out	(2,167,636)	(2,168,811)	(1,175)
Appropriated fund balance	100,000	-	(100,000)
Total other financing sources (uses)	<u>6,696,663</u>	<u>6,594,591</u>	<u>(102,072)</u>
Net change in fund balance	<u>\$ -</u>	2,352,793	<u>\$ 2,352,793</u>
Fund Balance:			
Beginning of year - July 1		<u>6,688,020</u>	
End of year - June 30		<u>\$ 9,040,813</u>	

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Major Capital Project Fund

NCRC Project Development Financing 2010 Fund - This fund is used to account for bond proceeds used for public improvements and debt issuance costs supporting the North Carolina Research Campus Project Development Financing District.

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CITY OF KANNAPOLIS, NORTH CAROLINA

MAJOR CAPITAL PROJECT FUND
NCRC PROJECT DEVELOPMENT FINANCING BONDS (SERIES 2010)
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues:				
Donations	\$ 100,000	\$ -	\$ 145,378	\$ 145,378
Investment earnings	-	82,045	7,497	89,542
Miscellaneous revenue	82,205	82,204	-	82,204
Total revenues	<u>182,205</u>	<u>164,249</u>	<u>152,875</u>	<u>317,124</u>
Expenditures:				
DOT tunnel	604,628	117,854	486,806	604,660
Veterans' Park	2,924,694	173,116	2,464,686	2,637,802
N. Main Street	116,377	116,377	-	116,377
N. Loop Road	29,758	-	29,758	29,758
Phase I streets	427,484	427,483	-	427,483
NCRC Phase II-A	510	510	-	510
Castle and Cooke projects	6,043,858	6,041,726	-	6,041,726
Health Alliance Building	13,508,476	13,397,082	111,393	13,508,475
Departmental supplies	2,952	2,950	2,132	5,082
Debt service:				
Interest and fees	1,210,366	1,210,364	-	1,210,364
Debt service reserve	3,580,842	19,917	-	19,917
Capitalized interest	965,538	965,538	-	965,538
Total expenditures	<u>29,415,483</u>	<u>22,472,917</u>	<u>3,094,775</u>	<u>25,567,692</u>
Revenues over (under) expenditures	<u>(29,233,278)</u>	<u>(22,308,668)</u>	<u>(2,941,900)</u>	<u>(25,250,568)</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	35,000,000	34,184,500	-	34,184,500
Premium on long-term debt	808,422	789,593	-	789,593
Payments to bondholders	(1,330,020)	(1,330,020)	-	(1,330,020)
Transfer (out)	(5,245,124)	-	(3,800,000)	(3,800,000)
Transfers in	-	309	1,097,755	1,098,064
Total other financing sources (uses)	<u>29,233,278</u>	<u>33,644,382</u>	<u>(2,702,245)</u>	<u>30,942,137</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 11,335,714</u>	<u>\$ (5,644,145)</u>	<u>\$ 5,691,569</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

	<i>Schedule C-1</i> Special Revenue Funds	<i>Schedule D-1</i> Capital Project Funds	Total
Assets:			
Cash and investments	\$ 170,404	\$ 3,711,013	\$ 3,881,417
Accounts receivable	227,812	-	227,812
Due from other governments	81,023	77,419	158,442
Cash and cash equivalents, restricted	<u>681,679</u>	<u>-</u>	<u>681,679</u>
 Total assets	 <u>\$ 1,160,918</u>	 <u>\$ 3,788,432</u>	 <u>\$ 4,949,350</u>
 Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable	\$ 93,012	\$ 11,609	\$ 104,621
Due to other funds	<u>-</u>	<u>11,823</u>	<u>11,823</u>
Total liabilities	<u>93,012</u>	<u>23,432</u>	<u>116,444</u>
 Deferred Inflows of Resources:			
Loan receivable	<u>227,556</u>	<u>-</u>	<u>227,556</u>
 Fund Balances:			
Restricted:			
Stabilization for State statute	81,279	77,419	158,698
Restricted, all other	764,564	31,115	795,679
Committed	-	3,679,898	3,679,898
Unassigned	<u>(5,493)</u>	<u>(23,432)</u>	<u>(28,925)</u>
Total fund balances	<u>840,350</u>	<u>3,765,000</u>	<u>4,605,350</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 1,160,918</u>	 <u>\$ 3,788,432</u>	 <u>\$ 4,949,350</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2013**

	<i>Schedule C-2</i> Special Revenue Funds	<i>Schedule D-2</i> Capital Project Funds	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Other taxes and licenses	\$ 159,371	\$ -	\$ 159,371
Restricted intergovernmental	357,998	41,143	399,141
Total revenues	<u>517,369</u>	<u>41,143</u>	<u>558,512</u>
Expenditures:			
Economic development	950,223	-	950,223
Departmental supplies	-	(4,111)	(4,111)
Contracted services	-	151,020	151,020
Capital outlay	-	285,344	285,344
Total expenditures	<u>950,223</u>	<u>432,253</u>	<u>1,382,476</u>
Revenues over (under) expenditures	<u>(432,854)</u>	<u>(391,110)</u>	<u>(823,964)</u>
Other Financing Sources (Uses):			
Transfers in	285,263	4,281,748	4,567,011
Transfers out	-	(346,087)	(346,087)
Total other financing sources (uses)	<u>285,263</u>	<u>3,935,661</u>	<u>4,220,924</u>
Net change in fund balances	(147,591)	3,544,551	3,396,960
Fund Balances:			
Beginning of year - July 1	<u>987,941</u>	<u>220,449</u>	<u>1,208,390</u>
End of year - June 30	<u>\$ 840,350</u>	<u>\$ 3,765,000</u>	<u>\$ 4,605,350</u>

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Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Community Development Block Grant Fund – This fund is used to account for federal grants under the Community Development Block Grant/Entitlement Program.

Transit Tax Fund – This fund is used to account for funds to be used in the development of a transit system for the City.

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CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2013

	<u>CDBG Fund</u>	<u>Transit Tax Fund</u>	<u>Total</u>
Assets:			
Cash and investments	\$ -	\$ 170,404	\$ 170,404
Accounts receivable	227,812	-	227,812
Due from other governments	81,023	-	81,023
Restricted cash	<u>681,679</u>	<u>-</u>	<u>681,679</u>
Total assets	<u>\$ 990,514</u>	<u>\$ 170,404</u>	<u>\$ 1,160,918</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable	<u>\$ 5,493</u>	<u>\$ 87,519</u>	<u>\$ 93,012</u>
Total liabilities	<u>5,493</u>	<u>87,519</u>	<u>93,012</u>
Deferred Inflows of Resources:			
Loan receivable	<u>227,556</u>	<u>-</u>	<u>227,556</u>
Fund Balances:			
Restricted:			
Stabilization for State statute	81,279	-	81,279
Restricted, all other	681,679	82,885	764,564
Unassigned	<u>(5,493)</u>	<u>-</u>	<u>(5,493)</u>
Total fund balances	<u>757,465</u>	<u>82,885</u>	<u>840,350</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 990,514</u>	<u>\$ 170,404</u>	<u>\$ 1,160,918</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2013

	CDBG Fund	Transit Tax Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Other taxes and licenses	\$ -	\$ 159,371	\$ 159,371
Restricted intergovernmental	357,998	-	357,998
Total revenues	<u>357,998</u>	<u>159,371</u>	<u>517,369</u>
Expenditures:			
Current:			
Community development	<u>530,447</u>	<u>419,776</u>	<u>950,223</u>
Revenues over (under) expenditures	<u>(172,449)</u>	<u>(260,405)</u>	<u>(432,854)</u>
Other Financing Sources (Uses):			
Transfers in (out)	<u>-</u>	<u>285,263</u>	<u>285,263</u>
Total other financing sources (uses)	<u>-</u>	<u>285,263</u>	<u>285,263</u>
Net change in fund balances	(172,449)	24,858	(147,591)
Fund Balances:			
Beginning of year - July 1	<u>929,914</u>	<u>58,027</u>	<u>987,941</u>
End of year - June 30	<u>\$ 757,465</u>	<u>\$ 82,885</u>	<u>\$ 840,350</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**COMMUNITY DEVELOPMENT BLOCK GRANT
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013**

	Project Authorization	Actual		Total To Date
		Prior Years	Actual	
Revenues:				
CDBG 2012	\$ 354,220	\$ -	\$ 65,458	\$ 65,458
CDBG 2011	322,391	137,652	184,739	322,391
CDBG 2010	394,143	394,143	-	394,143
2009 HOME Program Grant	132,819	131,739	1,080	132,819
2010 HOME Program Grant	132,073	79,459	52,614	132,073
2011 HOME Program Grant	124,946	-	40,721	40,721
2012 HOME Program Grant	104,660	-	-	-
2009 Consortium HOME Program Income	183,942	183,942	-	183,942
2010 Consortium HOME Program Income	13,385	13,386	-	13,386
2011 Consortium HOME Program Income	96,834	96,834	-	96,834
2012 Consortium HOME Program Income	13,386	-	13,386	13,386
Sales and services	1,177,546	2,010,347	-	2,010,347
Miscellaneous revenue	-	717	-	717
Investment income	-	128,935	-	128,935
Total revenues	<u>3,050,345</u>	<u>3,177,154</u>	<u>357,998</u>	<u>3,535,152</u>
Expenditures:				
CDBG 2012:				
Administration	70,000	-	64,474	64,474
Park improvements	20,000	-	73	73
Public service	50,000	-	40,815	40,815
Section 108 loan payments	71,683	-	-	-
Urgent Repair Program	92,537	-	-	-
Demolition	50,000	-	-	-
Total	<u>354,220</u>	<u>-</u>	<u>105,362</u>	<u>105,362</u>
CDBG 2011:				
Administration	46,516	54,400	(7,884)	46,516
Public service	48,000	40,694	6,531	47,225
Section 108 loan payments	78,611	13,064	62,065	75,129
Urgent Repair Program	99,264	29,494	66,351	95,845
Demolition	50,000	-	21,594	21,594
Total	<u>322,391</u>	<u>137,652</u>	<u>148,657</u>	<u>286,309</u>
CDBG 2010:				
Administration	71,000	71,000	-	71,000
Neighborhood improvements	188,332	188,333	-	188,333
Public service	56,000	56,000	-	56,000
Section 108 loan payments	78,811	78,811	-	78,811
Total	<u>394,143</u>	<u>394,144</u>	<u>-</u>	<u>394,144</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**COMMUNITY DEVELOPMENT BLOCK GRANT
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual</u>	
			<u>Actual</u>	<u>Total To Date</u>
CDBG 2006:				
Section 108 loan payments	1,177,546	880,129	129,812	1,009,941
Total	<u>1,177,546</u>	<u>880,129</u>	<u>129,812</u>	<u>1,009,941</u>
2009 HOME Program Grant:				
Administration	20,846	5,082	15,764	20,846
Construction	466	466	-	466
Transitional housing	165,219	147,154	18,065	165,219
Program rehabilitation	80,230	80,230	-	80,230
Downpayment assistance	50,000	40,000	5,000	45,000
Total	<u>316,761</u>	<u>272,932</u>	<u>38,829</u>	<u>311,761</u>
2010 HOME Program Grant:				
Transitional housing	137,982	126,716	11,268	137,984
Administration	7,476	-	7,476	7,476
Total	<u>145,458</u>	<u>126,716</u>	<u>18,744</u>	<u>145,460</u>
2011 HOME Program Grant:				
Administration	15,372	825	14,547	15,372
Construction	50,000	10,547	21,584	32,131
Transitional housing	136,408	74,476	42,517	116,993
Downpayment assistance	20,000	-	10,000	10,000
Total	<u>221,780</u>	<u>85,848</u>	<u>88,648</u>	<u>174,496</u>
2012 HOME Program Grant:				
Administration	5,924	-	155	155
Property purchase	57,122	-	-	-
Program rehabilitation	30,000	-	240	240
Downpayment assistance	25,000	-	-	-
Total	<u>118,046</u>	<u>-</u>	<u>395</u>	<u>395</u>
Total expenditures	<u>3,050,345</u>	<u>1,897,421</u>	<u>530,447</u>	<u>2,427,868</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 1,279,733</u>	<u>\$ (172,449)</u>	<u>\$ 1,107,284</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

TRANSIT TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Other taxes and licenses:			
Vehicle license tax	\$ 164,000	\$ 159,371	\$ (4,629)
Total revenues	<u>164,000</u>	<u>159,371</u>	<u>(4,629)</u>
Expenditures:			
Contracted services	<u>449,263</u>	<u>419,776</u>	<u>29,487</u>
Revenues over (under) expenditures	<u>(285,263)</u>	<u>(260,405)</u>	<u>24,858</u>
Other Financing Sources (Uses):			
Transfers in (out)	<u>285,263</u>	<u>285,263</u>	<u>-</u>
Total other financing sources (uses)	<u>285,263</u>	<u>285,263</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 24,858</u>	<u>\$ 24,858</u>

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Capital Project Funds

Capital Projects Funds account for all resources used for the acquisition and/or construction of major capital facilities other than those financed by Enterprise Funds.

The City of Kannapolis has seventeen Capital Project Funds.

Village Park Project Fund - This fund is used to account for funds to be used in the construction of a new City park.

Capital Equipment 2011 Fund - This fund is used to account for funds used in the purchase of capital assets.

Firefighters' Assistance Fund - This fund is used to account for Department of Homeland Security grants to aid firefighters.

Dakota Street Bridge Improvements Fund - This fund is used to account for the construction of a creek culvert and crossing at Dakota Street.

Village Park Train Fund - This fund is used to account for funds to be used for improvements to and maintenance of a train on Village Park.

Three Bridge Projects Fund - This fund is used to account for the construction of three bridges.

James Street Area Plan Fund - This fund is used to account for funds to be used for development of an action plan to connect residents with economic opportunities.

Irish Buffalo Creek Greenway Fund - This fund is used to account for the development of a greenway along Irish Buffalo Creek.

Stadium Drive Bridge Repairs Fund - This fund is used to account for repairs of the Stadium Drive Bridge.

FEMA Pre-Disaster Mitigation Grant Fund - This fund is used to account for funds to be used in the acquisition of two residential properties located in the Patterson Branch flood plain.

FY '10 and FY '11 Recovery Act Byrne Grant - This fund is used to account for funds awarded through the FY '09 Recovery Act Edward Byrne Memorial Justice Grant to purchase conductive energy weapons.

Capital Projects Funds (continued)

Tropical Storm Fay Damage Fund - This fund is used to account for repairs of damage to River Farm Blvd. Bridge caused by Tropical Storm Fay.

Dale Earnhardt Blvd Sidewalk - This fund is used to account for funds used for sidewalk improvements on Dale Earnhardt Blvd.

Historic Preservation - This fund is used to account for funds used for historic preservation.

Rogers Lake Road – RR Crossing Improvement - This fund is used to account for improvements to the “at grade” railroad crossing at Rogers Lake Road.

City Office/Public Safety Building - This fund is used to account for construction of a city office building.

Orphanage Road Bridge/Greenway - This fund is used to account for the development of a greenway and bridge construction on Orphanage Road.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NONMAJOR CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	James Street Area Plan	Irish Buffalo Creek Greenway	Dale Earnhardt Blvd Sidewalk	Rogers Lake Road - RR Crossing Improvement	City Office/ Public Safety Building	Total
Assets:						
Cash and investments	\$ 483	\$ 31,115	\$ -	\$ 7,737	\$ 3,671,678	\$ 3,711,013
Due from other governments	-	-	77,419	-	-	77,419
Total assets	\$ 483	\$ 31,115	\$ 77,419	\$ 7,737	\$ 3,671,678	\$ 3,788,432

Liabilities and Fund Balances:

Liabilities:						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 11,609	\$ -	\$ -	\$ 11,609
Due to other funds	-	-	11,823	-	-	11,823
Total liabilities	-	-	23,432	-	-	23,432

Fund Balances:

Restricted:						
Stabilization for State statute	-	-	77,419	-	-	77,419
Restricted, all other	-	31,115	-	-	-	31,115
Committed	483	-	-	7,737	3,671,678	3,679,898
Unassigned	-	-	(23,432)	-	-	(23,432)
Total fund balances	483	31,115	53,987	7,737	3,671,678	3,765,000
Total liabilities and fund balances	\$ 483	\$ 31,115	\$ 77,419	\$ 7,737	\$ 3,671,678	\$ 3,788,432

CITY OF KANNAPOLIS, NORTH CAROLINA

**NONMAJOR CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013**

	Cemetery/ Village Park Parking Lot	Capital Equipment 2011	Firefighter's Assistance	Dakota Street Bridge Improvements	Village Park Train	Three Bridge Project	James Street Area Plan	Irish Buffalo Creek Greenway	Stadium Drive Bridge Repairs	FEMA Pre-Disaster Mitigation Grant
Revenues:										
Restricted intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:										
Current:										
Departmental supplies	(7,578)	-	-	-	178	-	70	-	-	-
Contracted services	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	-
Total expenditures	(7,578)	-	-	-	178	-	70	-	-	-
Revenues over (under) expenditures	7,578	-	-	(178)	-	-	(70)	-	-	-
Other Financing Sources (Uses):										
Transfers in	-	-	-	-	-	1,175	1,000	-	-	-
Transfers out	(48)	(3,916)	(378)	(233,325)	(32,828)	-	-	(21,053)	(83)	(83)
Total other financing sources (uses)	(48)	(3,916)	(378)	(233,325)	(32,828)	1,175	1,000	(21,053)	(83)	(83)
Net change in fund balances	7,530	(3,916)	(378)	(233,325)	(33,006)	1,175	930	(21,053)	(83)	(83)
Fund Balances:										
Beginning of year - July 1	(7,530)	3,916	378	233,325	33,006	(1,175)	(447)	31,115	21,053	83
End of year - June 30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 483	\$ 31,115	\$ -	\$ -

CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	FY '10 and FY '11 Recovery Act Byrne Grant	Tropical Storm Fay Damage	Dale Earnhardt Blvd Sidewalk	Historic Preservation	Rogers Lake Road - RR Crossing Improvement	City Office/ Public Safety Building	Orphanage Rd Bridge/ Greenway	Total
Revenues:								
Restricted intergovernmental	\$ -	\$ (42,767)	\$ 77,419	\$ -	\$ -	\$ 6,491	\$ -	\$ 41,143
Expenditures:								
Current:								
Departmental supplies	-	-	3,219	-	-	-	-	(4,111)
Contracted services	-	-	-	-	-	151,020	-	151,020
Capital outlay	-	-	93,554	-	267	-	191,523	285,344
Total expenditures	-	-	96,773	-	267	151,020	191,523	432,253
Revenues over (under) expenditures	-	(42,767)	(19,354)	-	(267)	(144,529)	(191,523)	(391,110)
Other Financing Sources (Uses):								
Transfers in	-	-	78,050	-	210,000	3,800,000	191,523	4,281,748
Transfers out	(327)	(103)	-	(54,026)	-	-	-	(346,087)
Total other financing sources (uses)	(327)	(103)	78,050	(54,026)	210,000	3,800,000	191,523	3,935,661
Net change in fund balances	(327)	(42,870)	58,696	(54,026)	209,733	3,655,471	-	3,544,551
Fund Balances:								
Beginning of year - July 1	327	42,870	(4,709)	54,026	(201,996)	16,207	-	220,449
End of year - June 30	-	-	53,987	-	7,737	3,671,678	-	3,765,000

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - CEMETERY/VILLAGE PARK PARKING LOT
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues:				
Contributions from citizens	\$ 30,794	\$ 30,794	\$ -	\$ 30,794
Investment earnings	6,143	6,144	-	6,144
Miscellaneous revenues	1,512	1,512	-	1,512
Total revenues	<u>38,449</u>	<u>38,450</u>	<u>-</u>	<u>38,450</u>
Expenditures:				
Departmental supplies	4,593	8,424	(7,578)	846
Community development	509,608	513,356	-	513,356
Total expenditures	<u>514,201</u>	<u>521,780</u>	<u>(7,578)</u>	<u>514,202</u>
Revenues over (under) expenditures	<u>(475,752)</u>	<u>(483,330)</u>	<u>7,578</u>	<u>(475,752)</u>
Other Financing Sources (Uses):				
Transfers in	475,800	475,800	-	475,800
Transfers (out)	(48)	-	(48)	(48)
Total other financing sources (uses)	<u>475,752</u>	<u>475,800</u>	<u>(48)</u>	<u>475,752</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (7,530)</u>	<u>\$ 7,530</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - 2011 CAPITAL EQUIPMENT

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:				
Investment earnings	\$ 215	\$ 216	\$ -	\$ 216
Total revenues	<u>215</u>	<u>216</u>	<u>-</u>	<u>216</u>
Expenditures:				
Community development	345,521	345,522	-	345,522
Total expenditures	<u>345,521</u>	<u>345,522</u>	<u>-</u>	<u>345,522</u>
Revenues over (under) expenditures	<u>(345,306)</u>	<u>(345,306)</u>	<u>-</u>	<u>(345,306)</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	971,183	971,182	-	971,182
Transfers out	(625,877)	(621,960)	(3,916)	(625,876)
Total other financing sources (uses)	<u>345,306</u>	<u>349,222</u>	<u>(3,916)</u>	<u>345,306</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 3,916</u>	<u>\$ (3,916)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - FIREFIGHTERS' ASSISTANCE

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
Revenues:				
Restricted intergovernmental	\$ 745,348	\$ 745,348	\$ -	\$ 745,348
Interest	1,416	1,416	-	1,416
Total revenues	<u>746,764</u>	<u>746,764</u>	<u>-</u>	<u>746,764</u>
Expenditures:				
Capital outlay:				
Firefighter equipment	294,422	294,422	-	294,422
Departmental supplies	<u>536,118</u>	<u>536,118</u>	<u>-</u>	<u>536,118</u>
Total expenditures	<u>830,540</u>	<u>830,540</u>	<u>-</u>	<u>830,540</u>
Revenues under expenditures	<u>(83,776)</u>	<u>(83,776)</u>	<u>-</u>	<u>(83,776)</u>
Other Financing Sources (Uses):				
Transfers in	84,154	84,154	-	84,154
Transfers (out)	<u>(378)</u>	<u>-</u>	<u>(378)</u>	<u>(378)</u>
Total other financing sources (uses)	<u>83,776</u>	<u>84,154</u>	<u>(378)</u>	<u>83,776</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 378</u>	<u>\$ (378)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - DAKOTA STREET BRIDGE IMPROVEMENTS FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Restricted intergovernmental	\$ 542,509	\$ 542,508	\$ -	\$ 542,508
Miscellaneous revenue	<u>7,392</u>	<u>7,392</u>	<u>-</u>	<u>7,392</u>
Total revenues	<u>549,901</u>	<u>549,900</u>	<u>-</u>	<u>549,900</u>
Expenditures:				
Capital outlay:				
Community development	<u>800,415</u>	<u>800,415</u>	<u>-</u>	<u>800,415</u>
Total expenditures	<u>800,415</u>	<u>800,415</u>	<u>-</u>	<u>800,415</u>
Revenues over (under) expenditures	<u>(250,514)</u>	<u>(250,515)</u>	<u>-</u>	<u>(250,515)</u>
Other Financing Sources (Uses):				
Transfers out	(233,326)	-	(233,325)	(233,325)
Transfers in	<u>483,840</u>	<u>483,840</u>	<u>-</u>	<u>483,840</u>
Total other financing sources (uses)	<u>250,514</u>	<u>483,840</u>	<u>(233,325)</u>	<u>250,515</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 233,325</u>	<u>\$ (233,325)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - VILLAGE PARK TRAIN FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Contributions	\$ 50,000	\$ 50,000	\$ -	\$ 50,000
Total revenues	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Expenditures:				
Capital outlay:				
Departmental supplies	2,054	1,876	178	2,054
Contracted services	<u>15,118</u>	<u>15,118</u>	<u>-</u>	<u>15,118</u>
Total expenditures	<u>17,172</u>	<u>16,994</u>	<u>178</u>	<u>17,172</u>
Revenues over (under) expenditures	<u>32,828</u>	<u>33,006</u>	<u>(178)</u>	<u>32,828</u>
Other Financing Sources (Uses):				
Transfers out	<u>(32,828)</u>	<u>-</u>	<u>(32,828)</u>	<u>(32,828)</u>
Total other financing sources	<u>(32,828)</u>	<u>-</u>	<u>(32,828)</u>	<u>(32,828)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 33,006</u>	<u>\$ (33,006)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - THREE BRIDGE PROJECT

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Proceeds from NCDOT	\$ 1,301,526	\$ 1,301,526	\$ -	\$ 1,301,526
Miscellaneous revenue	20,474	20,474	-	20,474
Total revenues	<u>1,322,000</u>	<u>1,322,000</u>	<u>-</u>	<u>1,322,000</u>
Expenditures:				
Capital outlay	1,846,496	1,846,496	-	1,846,496
Total expenditures	<u>1,846,496</u>	<u>1,846,496</u>	<u>-</u>	<u>1,846,496</u>
Revenues over (under) expenditures	<u>(524,496)</u>	<u>(524,496)</u>	<u>-</u>	<u>(524,496)</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	380,000	380,000	-	380,000
Transfers out	(330,000)	(330,000)	-	(330,000)
Transfers in	474,496	473,321	1,175	474,496
Total other financing sources (uses)	<u>524,496</u>	<u>523,321</u>	<u>1,175</u>	<u>524,496</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (1,175)</u>	<u>\$ 1,175</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - JAMES STREET AREA PLAN

SCHEDULE OF REVENUES AND EXPENDITURES

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:				
Proceeds from grants	\$ 37,500	\$ 35,000	\$ -	\$ 35,000
Total revenues	<u>37,500</u>	<u>35,000</u>	<u>-</u>	<u>35,000</u>
Expenditures:				
Contracted services	20,342	200	-	200
Departmental supplies	54,658	55,111	70	55,181
Total expenditures	<u>75,000</u>	<u>55,311</u>	<u>70</u>	<u>55,381</u>
Revenues over (under) expenditures	<u>(37,500)</u>	<u>(20,311)</u>	<u>(70)</u>	<u>(20,381)</u>
Other Financing Sources (Uses):				
Transfers in	37,500	19,864	1,000	20,864
Total other financing sources (uses)	<u>37,500</u>	<u>19,864</u>	<u>1,000</u>	<u>20,864</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (447)</u>	<u>\$ 930</u>	<u>\$ 483</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - IRISH BUFFALO CREEK GREENWAY
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Actual		Total to Date
	Prior Years	Current Year		
Revenues:				
Proceeds from grants	\$ 129,024	\$ 96,014	\$ -	\$ 96,014
Total revenues	<u>129,024</u>	<u>96,014</u>	<u>-</u>	<u>96,014</u>
Expenditures:				
Capital outlay	144,524	64,899	-	64,899
Total expenditures	<u>144,524</u>	<u>64,899</u>	<u>-</u>	<u>64,899</u>
Revenues over (under) expenditures	<u>(15,500)</u>	<u>31,115</u>	<u>-</u>	<u>31,115</u>
Other Financing Sources (Uses):				
Transfers in	15,500	-	-	-
Total other financing sources (uses)	<u>15,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 31,115</u>	<u>\$ -</u>	<u>\$ 31,115</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - STADIUM DRIVE BRIDGE REPAIRS
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Proceeds from grants	\$ 240,187	\$ 240,186	\$ -	\$ 240,186
Miscellaneous revenue	3,334	3,334	-	3,334
Total revenues	<u>243,521</u>	<u>243,520</u>	<u>-</u>	<u>243,520</u>
Expenditures:				
Capital outlay	320,893	320,891	-	320,891
Total expenditures	<u>320,893</u>	<u>320,891</u>	<u>-</u>	<u>320,891</u>
Revenues over (under) expenditures	<u>(77,372)</u>	<u>(77,371)</u>	<u>-</u>	<u>(77,371)</u>
Other Financing Sources (Uses):				
Transfers out	(196,052)	(175,000)	(21,053)	(196,053)
Transfers in	273,424	273,424	-	273,424
Total other financing sources (uses)	<u>77,372</u>	<u>98,424</u>	<u>(21,053)</u>	<u>77,371</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 21,053</u>	<u>\$ (21,053)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - FEMA PRE-DISASTER MITIGATION GRANT
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Proceeds from grants	\$ 213,746	\$ 213,746	\$ -	\$ 213,746
Total revenues	<u>213,746</u>	<u>213,746</u>	<u>-</u>	<u>213,746</u>
Expenditures:				
Capital outlay	249,578	249,577	-	249,577
Departmental supplies	<u>3,446</u>	<u>3,446</u>	<u>-</u>	<u>3,446</u>
Total expenditures	<u>253,024</u>	<u>253,023</u>	<u>-</u>	<u>253,023</u>
Revenues over (under) expenditures	<u>(39,278)</u>	<u>(39,277)</u>	<u>-</u>	<u>(39,277)</u>
Other Financing Sources (Uses):				
Transfers in	39,360	39,360	-	39,360
Transfers (out)	<u>(82)</u>	<u>-</u>	<u>(83)</u>	<u>(83)</u>
Total other financing sources (uses)	<u>39,278</u>	<u>39,360</u>	<u>(83)</u>	<u>39,277</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 83</u>	<u>\$ (83)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - FY '10 AND FY '11 RECOVERY ACT BYRNE GRANT
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Prior Years	Actual	
			Current Year	Total to Date
Revenues:				
Proceeds from grants	\$ 32,575	\$ 32,575	\$ -	\$ 32,575
Total revenues	<u>32,575</u>	<u>32,575</u>	<u>-</u>	<u>32,575</u>
Expenditures:				
Departmental supplies	32,248	32,248	-	32,248
Total expenditures	<u>32,248</u>	<u>32,248</u>	<u>-</u>	<u>32,248</u>
Revenues over (under) expenditures	<u>327</u>	<u>327</u>	<u>-</u>	<u>327</u>
Other Financing Sources (Uses):				
Transfers out	(327)	-	(327)	(327)
Total other financing sources (uses)	<u>(327)</u>	<u>-</u>	<u>(327)</u>	<u>(327)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 327</u>	<u>\$ (327)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - TROPICAL STORM FAY DAMAGE
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Proceeds from grants	\$ 45,991	\$ 88,759	\$ (42,767)	45,992
Miscellaneous revenue	33	33	-	33
Total revenues	46,024	88,792	(42,767)	46,025
Expenditures:				
Capital outlay	61,322	61,322	-	61,322
Total expenditures	61,322	61,322	-	61,322
Revenues over (under) expenditures	(15,298)	27,470	(42,767)	(15,297)
Other Financing Sources (Uses):				
Transfers in	15,400	15,400	-	15,400
Transfers (out)	(102)	-	(103)	(103)
Total other financing sources	15,298	15,400	(103)	15,297
Net change in fund balance	\$ -	\$ 42,870	\$ (42,870)	\$ -

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - DALE EARNHARDT BLVD SIDEWALK
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Proceeds from grants	\$ 312,200	\$ 18,836	\$ 77,419	\$ 96,255
Total revenues	<u>312,200</u>	<u>18,836</u>	<u>77,419</u>	<u>96,255</u>
Expenditures:				
Capital outlay	387,729	23,545	93,554	117,099
Salaries and benefits	<u>2,521</u>	<u>-</u>	<u>3,219</u>	<u>3,219</u>
Total expenditures	<u>390,250</u>	<u>23,545</u>	<u>96,773</u>	<u>120,318</u>
Revenues over (under) expenditures	<u>(78,050)</u>	<u>(4,709)</u>	<u>(19,354)</u>	<u>(24,063)</u>
Other Financing Sources (Uses):				
Transfers in	<u>78,050</u>	<u>-</u>	<u>78,050</u>	<u>78,050</u>
Total other financing sources (uses)	<u>78,050</u>	<u>-</u>	<u>78,050</u>	<u>78,050</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (4,709)</u>	<u>\$ 58,696</u>	<u>\$ 53,987</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - HISTORIC PRESERVATION
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Expenditures:				
Departmental supplies	\$ 8,488	\$ 8,488	-	\$ 8,488
Total expenditures	<u>8,488</u>	<u>8,488</u>	<u>-</u>	<u>8,488</u>
Revenues over (under) expenditures	<u>(8,488)</u>	<u>(8,488)</u>	<u>-</u>	<u>(8,488)</u>
Other Financing Sources (Uses):				
Transfers (out)	(54,026)	-	(54,026)	(54,026)
Transfers in	<u>62,514</u>	<u>62,514</u>	<u>-</u>	<u>62,514</u>
Total other financing sources (uses)	<u>8,488</u>	<u>62,514</u>	<u>(54,026)</u>	<u>8,488</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 54,026</u>	<u>\$ (54,026)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - ROGERS LAKE ROAD - RR CROSSING IMPROVEMENT
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Expenditures:				
Capital outlay	\$ 475,000	\$ 201,996	\$ 267	\$ 202,263
Total expenditures	<u>475,000</u>	<u>201,996</u>	<u>267</u>	<u>202,263</u>
Revenues over (under) expenditures	<u>(475,000)</u>	<u>(201,996)</u>	<u>(267)</u>	<u>(202,263)</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	265,000	-	-	-
Transfers in	<u>210,000</u>	<u>-</u>	<u>210,000</u>	<u>210,000</u>
Total other financing sources (uses)	<u>475,000</u>	<u>-</u>	<u>210,000</u>	<u>210,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (201,996)</u>	<u>\$ 209,733</u>	<u>\$ 7,737</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - CITY OFFICE/PUBLIC SAFETY BUILDING
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Contributions	\$ 6,491	\$ -	\$ 6,491	\$ 6,491
Total revenues	<u>6,491</u>	<u>-</u>	<u>6,491</u>	<u>6,491</u>
Expenditures:				
Contracted services	3,850,000	33,793	151,020	184,813
Capital outlay	<u>6,491</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>3,856,491</u>	<u>33,793</u>	<u>151,020</u>	<u>184,813</u>
Revenues over (under) expenditures	<u>(3,850,000)</u>	<u>(33,793)</u>	<u>(144,529)</u>	<u>(178,322)</u>
Other Financing Sources (Uses):				
Transfers in	<u>3,850,000</u>	<u>50,000</u>	<u>3,800,000</u>	<u>3,850,000</u>
Total other financing sources (uses)	<u>3,850,000</u>	<u>50,000</u>	<u>3,800,000</u>	<u>3,850,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 16,207</u>	<u>\$ 3,655,471</u>	<u>\$ 3,671,678</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**CAPITAL PROJECT FUND - ORPHANAGE ROAD BRIDGE/GREENWAY
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013**

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
Expenditures:				
Capital Outlay:				
Capital outlay	\$ 190,557	\$ -	\$ 190,558	\$ 190,558
Greenway installation	966	-	965	965
Total expenditures	<u>191,523</u>	<u>-</u>	<u>191,523</u>	<u>191,523</u>
Revenues over (under) expenditures	<u>(191,523)</u>	<u>-</u>	<u>(191,523)</u>	<u>(191,523)</u>
Other Financing Sources (Uses):				
Transfers in	<u>191,523</u>	<u>-</u>	<u>191,523</u>	<u>191,523</u>
Total other financing sources (uses)	<u>191,523</u>	<u>-</u>	<u>191,523</u>	<u>191,523</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Enterprise Funds

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

The City of Kannapolis has three Enterprise Funds:

Water and Sewer Fund
Stormwater Fund
Environmental Services Fund

The City maintains thirteen separate Water and Sewer Capital Project Funds for accounting purposes, listed as follows:

Capital Project V Fund
Water and Sewer Equipment Fund
Shiloh Church Road Extension Fund
Kannapolis Downtown Water System Improvements Fund
Albemarle Water Line Fund
EECBG WTP Pump Retrofit Fund
Second Creek Pump Station Improvements Fund
Tropical Storm Fay Damage Fund
Lane Street Sewer Line Fund
Kannapolis Lake Dam Improvements Fund
Capital Equipment 2011 Fund
WTP Rehabilitation Fund
Highway 73 (Exit 55) Water Line Fund

The City maintains two Stormwater Project Funds for accounting purposes, listed as follows:

Stormwater Capital Equipment Project Fund
8th Street Culvert Replacement Fund

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CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating Revenues:			
Charges for services:			
Water and sewer charges	\$ 12,450,000	\$ 12,133,653	\$ (316,347)
Water and sewer taps	510,000	562,850	52,850
Penalties	320,000	360,883	40,883
Other	397,048	603,847	206,799
Total operating revenues	<u>13,677,048</u>	<u>13,661,233</u>	<u>(15,815)</u>
Non-Operating Revenues:			
Interest on investments	40,000	2,851	(37,149)
Total non-operating revenues	<u>40,000</u>	<u>2,851</u>	<u>(37,149)</u>
Total revenues	<u>13,717,048</u>	<u>13,664,084</u>	<u>(52,964)</u>
Expenditures:			
Administration:			
Salaries and employee benefits	364,936	338,148	26,788
Operating expenditures	204,439	216,481	(12,042)
Repairs and maintenance	3,000	157	2,843
Total	<u>572,375</u>	<u>554,786</u>	<u>17,589</u>
Distribution:			
Salaries and employee benefits	1,137,342	1,105,202	32,140
Operating expenditures	822,614	680,985	141,629
Repairs and maintenance	103,350	145,269	(41,919)
Capital outlay	574,900	533,071	41,829
Total	<u>2,638,206</u>	<u>2,464,527</u>	<u>173,679</u>
Filter Plant:			
Salaries and employee benefits	453,303	453,177	126
Operating expenditures	1,296,995	1,313,549	(16,554)
Repairs and maintenance	110,900	102,698	8,202
Capital outlay	59,400	59,370	30
Total	<u>1,920,598</u>	<u>1,928,794</u>	<u>(8,196)</u>
General Services	<u>1,005,000</u>	<u>1,019,497</u>	<u>(14,497)</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Sewage Treatment	2,695,203	2,693,521	1,682
Debt Service:			
Principal	2,457,939	2,457,939	-
Interest and fees	680,037	617,414	62,623
Total debt service	<u>3,137,976</u>	<u>3,075,353</u>	<u>62,623</u>
Total expenditures	<u>11,969,358</u>	<u>11,736,478</u>	<u>232,880</u>
Revenues over (under) expenditures	<u>1,747,690</u>	<u>1,927,606</u>	<u>179,916</u>
Other Financing Sources (Uses):			
Transfers in	591,256	569,792	(21,464)
Transfers out	(3,040,302)	(2,840,302)	200,000
Issuance of debt	701,356	701,356	-
Total other financing sources (uses)	<u>(1,747,690)</u>	<u>(1,569,154)</u>	<u>178,536</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>358,452</u>	<u>\$ 358,452</u>
Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Depreciation and amortization		(2,351,167)	
Capital outlay		592,441	
Capital project expenses not capitalized		(2)	
Transfers in - capital projects		1,665,302	
Transfers out - capital projects		(569,784)	
Debt issued		(701,356)	
Payment of debt principal		2,457,939	
Change in accrued interest		(27,677)	
Other post-employment benefits		(362,522)	
Contribution from developer		449,690	
Project transactions		<u>(213,356)</u>	
Change in net position		<u>\$ 1,297,960</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

**WATER AND SEWER CAPITAL PROJECT V FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013**

	Project Authorization	Actual		Total to Date
	Prior Years	Current Year		
Revenues:				
Concord contribution	\$ 152,833	\$ 152,833	\$ -	\$ 152,833
Interest income	11,206	11,207	-	11,207
Total revenues	<u>164,039</u>	<u>164,040</u>	<u>-</u>	<u>164,040</u>
Expenditures:				
Construction - water	4,306,781	4,306,781	-	4,306,781
Total expenditures	<u>4,306,781</u>	<u>4,306,781</u>	<u>-</u>	<u>4,306,781</u>
Revenues over (under) expenditures	<u>(4,142,742)</u>	<u>(4,142,741)</u>	<u>-</u>	<u>(4,142,741)</u>
Other Financing Sources (Uses):				
Transfers in (out)	3,268,278	2,100,827	1,167,450	3,268,277
Debt issued	874,464	874,464	-	874,464
Total other financing sources (uses)	<u>4,142,742</u>	<u>2,975,291</u>	<u>1,167,450</u>	<u>4,142,741</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (1,167,450)</u>	<u>\$ 1,167,450</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER EQUIPMENT CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:				
Interest income	\$ 8,417	\$ 8,416	\$ -	\$ 8,416
Miscellaneous revenue	411	411	-	411
Total revenues	<u>8,828</u>	<u>8,827</u>	<u>-</u>	<u>8,827</u>
Expenditures:				
Departmental supplies	43,842	43,843	(2)	43,841
Equipment purchases	916,977	916,977	-	916,977
Total expenditures	<u>960,819</u>	<u>960,820</u>	<u>(2)</u>	<u>960,818</u>
Revenues over (under) expenditures	<u>(951,991)</u>	<u>(951,993)</u>	<u>2</u>	<u>(951,991)</u>
Other Financing Sources (Uses):				
Debt issued	1,011,592	1,011,592	-	1,011,592
Transfer out	(59,601)	(16,836)	(42,765)	(59,601)
Total other financing sources (uses)	<u>951,991</u>	<u>994,756</u>	<u>(42,765)</u>	<u>951,991</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 42,763</u>	<u>\$ (42,763)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - SHILOH CHURCH ROAD EXTENSION
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Expenditures:				
Capital outlay	\$ 1,042,000	\$ 249,131	\$ -	\$ 249,131
Total expenditures	<u>1,042,000</u>	<u>249,131</u>	<u>-</u>	<u>249,131</u>
Revenues over (under) expenditures	<u>(1,042,000)</u>	<u>(249,131)</u>	<u>-</u>	<u>(249,131)</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	1,042,000	-	-	-
Transfers in	-	249,131	-	249,131
Total other financing sources (uses)	<u>1,042,000</u>	<u>249,131</u>	<u>-</u>	<u>249,131</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT
 KANNAPOLIS DOWNTOWN WATER SYSTEM IMPROVEMENTS
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
Revenues:				
Grant proceeds	\$ 675,900	\$ 675,900	\$ -	\$ 675,900
Miscellaneous revenue	64,514	64,514	-	64,514
Interest income	1,280	1,280	-	1,280
Total revenues	<u>741,694</u>	<u>741,694</u>	<u>-</u>	<u>741,694</u>
Expenditures:				
Capital outlay	<u>2,566,124</u>	<u>2,566,124</u>	<u>-</u>	<u>2,566,124</u>
Total expenditures	<u>2,566,124</u>	<u>2,566,124</u>	<u>-</u>	<u>2,566,124</u>
Revenues over (under) expenditures	<u>(1,824,430)</u>	<u>(1,824,430)</u>	<u>-</u>	<u>(1,824,430)</u>
Other Financing Sources (Uses):				
Transfers in	377,560	377,560	-	377,560
Transfers (out)	(284,990)	-	(284,990)	(284,990)
Debt issued	<u>1,731,860</u>	<u>1,731,860</u>	<u>-</u>	<u>1,731,860</u>
Total other financing sources (uses)	<u>1,824,430</u>	<u>2,109,420</u>	<u>(284,990)</u>	<u>1,824,430</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 284,990</u>	<u>\$ (284,990)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - ALBEMARLE WATER LINE
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Expenditures:				
Capital outlay	\$ 539,560	\$ 423,364	\$ 84,427	\$ 507,791
Total expenditures	<u>539,560</u>	<u>423,364</u>	<u>84,427</u>	<u>507,791</u>
Revenues over (under) expenditures	<u>(539,560)</u>	<u>(423,364)</u>	<u>(84,427)</u>	<u>(507,791)</u>
Other Financing Sources (Uses):				
Transfers in	<u>539,560</u>	<u>204,910</u>	<u>-</u>	<u>204,910</u>
Total other financing sources (uses)	<u>539,560</u>	<u>204,910</u>	<u>-</u>	<u>204,910</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (218,454)</u>	<u>\$ (84,427)</u>	<u>\$ (302,881)</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - EECBG WTP PUMP RETROFIT
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues:				
Grant proceeds	\$ 203,000	\$ 203,000	\$ -	\$ 203,000
Total revenues	<u>203,000</u>	<u>203,000</u>	<u>-</u>	<u>203,000</u>
Expenditures:				
Capital outlay	<u>323,481</u>	<u>323,482</u>	<u>-</u>	<u>323,482</u>
Total expenditures	<u>323,481</u>	<u>323,482</u>	<u>-</u>	<u>323,482</u>
Revenues over (under) expenditures	<u>(120,481)</u>	<u>(120,482)</u>	<u>-</u>	<u>(120,482)</u>
Other Financing Sources (Uses):				
Transfers in	<u>120,481</u>	<u>31,339</u>	<u>89,143</u>	<u>120,482</u>
Total other financing sources (uses)	<u>120,481</u>	<u>31,339</u>	<u>89,143</u>	<u>120,482</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (89,143)</u>	<u>\$ 89,143</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT
 SECOND CREEK PUMP STATION IMPROVEMENTS
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues:				
Miscellaneous revenue	\$ 8,490	\$ 8,489	\$ -	\$ 8,489
Total revenues	<u>8,490</u>	<u>8,489</u>	<u>-</u>	<u>8,489</u>
Expenditures:				
Capital outlay	292,491	281,299	11,192	292,491
Total expenditures	<u>292,491</u>	<u>281,299</u>	<u>11,192</u>	<u>292,491</u>
Revenues over (under) expenditures	<u>(284,001)</u>	<u>(272,810)</u>	<u>(11,192)</u>	<u>(284,002)</u>
Other Financing Sources (Uses):				
Transfers in (out)	(19,433)	7,321	(26,753)	(19,432)
Debt issued	303,434	264,103	39,331	303,434
Total other financing sources (uses)	<u>284,001</u>	<u>271,424</u>	<u>12,578</u>	<u>284,002</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (1,386)</u>	<u>\$ 1,386</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - TROPICAL STORM FAY DAMAGE
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
Revenues:				
Grant proceeds	\$ 277,323	\$ 487,987	\$ (213,356)	\$ 274,631
Miscellaneous revenue	-	2,694	-	2,694
Total revenues	<u>277,323</u>	<u>490,681</u>	<u>(213,356)</u>	<u>277,325</u>
Expenditures:				
Capital outlay	<u>424,863</u>	<u>424,865</u>	<u>-</u>	<u>424,865</u>
Total expenditures	<u>424,863</u>	<u>424,865</u>	<u>-</u>	<u>424,865</u>
Revenues over (under) expenditures	<u>(147,540)</u>	<u>65,816</u>	<u>(213,356)</u>	<u>(147,540)</u>
Other Financing Sources (Uses):				
Transfers in	<u>147,540</u>	<u>147,540</u>	<u>-</u>	<u>147,540</u>
Total other financing sources (uses)	<u>147,540</u>	<u>147,540</u>	<u>-</u>	<u>147,540</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 213,356</u>	<u>\$ (213,356)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - LANE STREET SEWER LINE
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Expenditures:				
Capital outlay	\$ 2,700	\$ 2,699	\$ -	\$ 2,699
Total expenditures	<u>2,700</u>	<u>2,699</u>	<u>-</u>	<u>2,699</u>
Revenues over (under) expenditures	<u>(2,700)</u>	<u>(2,699)</u>	<u>-</u>	<u>(2,699)</u>
Other Financing Sources (Uses):				
Transfers in (out)	<u>2,700</u>	<u>2,700</u>	<u>(1)</u>	<u>2,699</u>
Total other financing sources (uses)	<u>2,700</u>	<u>2,700</u>	<u>(1)</u>	<u>2,699</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - KANNAPOLIS LAKE DAM IMPROVEMENTS
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Miscellaneous revenue	\$ -	\$ 1,959	\$ -	\$ 1,959
Total revenues	<u>-</u>	<u>1,959</u>	<u>-</u>	<u>1,959</u>
Expenditures:				
Capital outlay	701,995	701,995	-	701,995
Total expenditures	<u>701,995</u>	<u>701,995</u>	<u>-</u>	<u>701,995</u>
Revenues over (under) expenditures	<u>(701,995)</u>	<u>(700,036)</u>	<u>-</u>	<u>(700,036)</u>
Other Financing Sources (Uses):				
Transfers in	701,995	534,941	165,095	700,036
Total other financing sources (uses)	<u>701,995</u>	<u>534,941</u>	<u>165,095</u>	<u>700,036</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (165,095)</u>	<u>\$ 165,095</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - CAPITAL EQUIPMENT 2011

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

		<u>Actual</u>		
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Other Financing Sources (Uses):				
Transfers out	\$ (1,147,840)	\$ (932,641)	\$ (215,275)	\$ (1,147,916)
Debt issued	<u>1,147,840</u>	<u>1,147,916</u>	<u>-</u>	<u>1,147,916</u>
Total other financing sources (uses)	<u>-</u>	<u>215,275</u>	<u>(215,275)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 215,275</u>	<u>\$ (215,275)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - WTP REHABILITATION PROJECT
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Expenditures:				
Capital outlay	\$ 101,000	\$ 97,500	\$ -	\$ 97,500
Total expenditures	<u>101,000</u>	<u>97,500</u>	<u>-</u>	<u>97,500</u>
Revenues over (under) expenditures	<u>(101,000)</u>	<u>(97,500)</u>	<u>-</u>	<u>(97,500)</u>
Other Financing Sources (Uses):				
Transfer in	101,000	-	97,500	97,500
Total other financing sources (uses)	<u>101,000</u>	<u>-</u>	<u>97,500</u>	<u>97,500</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (97,500)</u>	<u>\$ 97,500</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - HIGHWAY 73 (EXIT 55) WATER LINE

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Expenditures:				
Capital outlay	\$ 147,000	\$ -	\$ -	\$ -
Total expenditures	<u>147,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>(147,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfer in (out)	147,000	-	146,114	146,114
Total other financing sources (uses)	<u>147,000</u>	<u>-</u>	<u>146,114</u>	<u>146,114</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 146,114</u>	<u>\$ 146,114</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

STORMWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services:			
Sales and services	\$ 1,599,000	\$ 1,670,889	\$ 71,889
Investment earnings	100	-	(100)
Miscellaneous revenue	-	840	840
Total revenues	<u>1,599,100</u>	<u>1,671,729</u>	<u>72,629</u>
Expenditures:			
Salaries and employee benefits	546,178	475,830	70,348
Operating expenditures	563,292	522,070	41,222
General services	187,828	187,828	-
Capital outlay	93,814	81,591	12,223
Total	<u>1,391,112</u>	<u>1,267,319</u>	<u>123,793</u>
Debt Service:			
Principal	4,055,821	4,055,821	-
Interest	469,233	205,275	263,958
Total	<u>4,525,054</u>	<u>4,261,096</u>	<u>263,958</u>
Total expenditures	<u>5,916,166</u>	<u>5,528,415</u>	<u>387,751</u>
Revenues over (under) expenditures	<u>(4,317,066)</u>	<u>(3,856,686)</u>	<u>460,380</u>
Other Financing Sources (Uses):			
Transfers in	468,814	268,814	(200,000)
Debt issued	3,848,252	3,848,271	19
Total other financing sources (uses)	<u>4,317,066</u>	<u>4,117,085</u>	<u>(199,981)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>260,399</u>	<u>\$ 260,399</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Reconciling items:			
Depreciation and amortization		(179,188)	
Capital outlay		81,591	
Debt transferred between funds, net		(1,067,996)	
Intrafund transfers		(93,814)	
Debt proceeds		(3,848,271)	
Capital contribution		(29,759)	
Other post-employment benefits		(120,841)	
Payment of debt principal		4,055,821	
Total		<u>(1,202,457)</u>	
Change in net position		<u>\$ (942,058)</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

STORMWATER CAPITAL PROJECT - CAPITAL EQUIPMENT FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
Revenues:				
Interest income	\$ 1,796	\$ 1,796	\$ -	\$ 1,796
Total revenues	<u>1,796</u>	<u>1,796</u>	<u>-</u>	<u>1,796</u>
Expenditures:				
Equipment purchases	<u>635,608</u>	<u>635,608</u>	<u>-</u>	<u>635,608</u>
Total expenditures	<u>635,608</u>	<u>635,608</u>	<u>-</u>	<u>635,608</u>
Revenues over (under) expenditures	<u>(633,812)</u>	<u>(633,812)</u>	<u>-</u>	<u>(633,812)</u>
Other Financing Sources (Uses):				
Transfer (out)	(93,814)		(93,814)	(93,814)
Debt issued	<u>727,626</u>	<u>727,626</u>	<u>-</u>	<u>727,626</u>
Total other financing sources (uses)	<u>633,812</u>	<u>727,626</u>	<u>(93,814)</u>	<u>633,812</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 93,814</u>	<u>\$ (93,814)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

STORMWATER CAPITAL PROJECT - 8TH STREET CULVERT REPLACEMENT
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Prior Years	Actual	
			Current Year	Total to Date
Expenditures:				
Engineering/consultants	\$ 265,000	\$ 130,272	\$ 50,571	\$ 180,843
Capital outlay	<u>995,000</u>	<u>-</u>	<u>247,721</u>	<u>247,721</u>
Total expenditures	<u>1,260,000</u>	<u>130,272</u>	<u>298,292</u>	<u>428,564</u>
Revenues over (under) expenditures	<u>(1,260,000)</u>	<u>(130,272)</u>	<u>(298,292)</u>	<u>(428,564)</u>
Other Financing Sources (Uses):				
Debt issued	<u>1,260,000</u>	<u>-</u>	<u>1,260,000</u>	<u>1,260,000</u>
Total other financing sources (uses)	<u>1,260,000</u>	<u>-</u>	<u>1,260,000</u>	<u>1,260,000</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (130,272)</u>	<u>\$ 961,708</u>	<u>\$ 831,436</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

ENVIRONMENTAL SERVICES FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services:			
Sales and services	\$ 1,271,833	\$ 1,264,360	\$ (7,473)
Miscellaneous revenue	70,000	372	70,372
Total revenues	<u>1,341,833</u>	<u>1,264,732</u>	<u>62,899</u>
Expenditures:			
Salaries and employee benefits	43,355	43,650	(295)
Operating expenditures	40,000	9,127	30,873
Contracted services	2,788,337	2,790,658	(2,321)
Other operating expenditures	414,213	448,638	(34,425)
Total	<u>3,285,905</u>	<u>3,292,073</u>	<u>(6,168)</u>
Debt Service:			
Principal	162,364	162,364	-
Interest	13,564	13,564	-
Total	<u>175,928</u>	<u>175,928</u>	<u>-</u>
Total expenditures	<u>3,461,833</u>	<u>3,468,001</u>	<u>(6,168)</u>
Revenues over (under) expenditures	<u>(2,120,000)</u>	<u>(2,203,269)</u>	<u>(83,269)</u>
Other Financing Sources (Uses):			
Transfers in	2,050,000	2,050,000	-
Transfers (out)	(500,000)	(500,000)	-
Appropriated fund balance	570,000	-	(570,000)
Total other financing sources (uses)	<u>2,120,000</u>	<u>1,550,000</u>	<u>(570,000)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(653,269)</u>	<u>\$ (653,269)</u>
Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Reconciling items:			
Other post-employment benefits		(8,631)	
Payment of debt principal		162,364	
Total		<u>153,733</u>	
Change in net position		<u>\$ (499,536)</u>	

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Additional Financial Data

This section contains additional information on property taxes and interfund and component unit transfers.

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy

Analysis of Current Tax Levy - Secondary Market Disclosure

Schedule of Principal Taxpayers

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CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2013

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2012</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2013</u>
2012 - 2013	\$ -	\$ 19,330,121	\$ 18,620,309	\$ 709,812
2011 - 2012	688,835	-	454,727	234,108
2010 - 2011	257,995	-	108,654	149,341
2009 - 2010	139,788	-	37,044	102,744
2008 - 2009	70,627	-	(183,909)	254,536
2007 - 2008	27,624	-	5,768	21,856
2006 - 2007	19,546	-	1,849	17,697
2005 - 2006	22,941	-	2,096	20,845
2004 - 2005	20,469	-	1,934	18,535
2003 - 2004	20,411	-	1,268	19,143
2002 - 2003	17,390	-	17,390	-
Total	<u>\$ 1,285,626</u>	<u>\$ 19,330,121</u>	<u>\$ 19,067,130</u>	1,548,617
Less: Allowance for uncollectible accounts				<u>374,894</u>
Ad valorem taxes receivable - net				<u>\$ 1,173,723</u>
Reconciliation with Revenues:				
Ad valorem taxes - General Fund				\$ 19,032,093
Reconciling items:				
Penalties and interest				(79,417)
Taxes written off - State statute				17,390
Miscellaneous adjustment				<u>97,064</u>
Total collections and credits				<u>\$ 19,067,130</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2013

	City-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 3,362,863,336	\$ 0.5600	\$ 18,832,035	\$ 17,867,761	\$ 964,274
Property taxed at prior year's rate	<u>91,631,637</u>	0.4900	<u>448,995</u>	<u>-</u>	<u>448,995</u>
Total	<u>3,454,494,973</u>		<u>19,281,030</u>	<u>17,867,761</u>	<u>1,413,269</u>
Discoveries:					
Current year taxes	24,012,423	0.5600	134,470	45,830	88,640
Prior year taxes	7,777,133	0.4900	38,108	35,169	2,939
Penalties	-		25,141	25,141	-
Total	<u>31,789,556</u>		<u>197,719</u>	<u>106,140</u>	<u>91,579</u>
Abatements:					
Property taxed at current year's rate	(1,989,461)	0.5600	(11,141)	-	(11,141)
Property taxed at prior year's rate	<u>(28,058,482)</u>	0.4900	<u>(137,487)</u>	<u>(129,968)</u>	<u>(7,519)</u>
Total	<u>(30,047,943)</u>		<u>(148,628)</u>	<u>(129,968)</u>	<u>(18,660)</u>
Total property valuation	<u>\$ 3,456,236,586</u>		19,330,121	17,843,933	1,486,188
Less uncollected taxes at June 30, 2013			<u>709,812</u>	<u>477,363</u>	<u>232,449</u>
Current Year's Taxes Collected			<u>\$ 18,620,309</u>	<u>\$ 17,366,570</u>	<u>\$ 1,253,739</u>
Percent Current Year Collected			<u>96.33%</u>	<u>97.32%</u>	<u>84.36%</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**ANALYSIS OF CURRENT TAX LEVY
SECONDARY MARKET DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2013**

Assessed Valuation:

Assessment Ratio (1)	<u>100.00%</u>
Real Property	\$ 3,184,460,797
Personal Property	207,389,228
Public Service Companies (2)	<u>64,386,561</u>
Total assessed valuation	<u>\$ 3,456,236,586</u>
Tax Rate per \$100	0.5600
Levy (includes discoveries, releases, penalties, and abatements)	<u>\$ 19,330,121</u>

(1) Percentage of appraised value has been established by statute.

(2) Valuation of railroads, telephone companies, and other utilities determined by the N.C. Property Tax Commission.

CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF PRINCIPAL TAXPAYERS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Business</u>	<u>Type of Enterprise</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Castle & Cooke NCRC	Real Estate	\$ 196,840,620	5.69%
Castle & Cooke LLC	Real Estate	85,901,672	2.48%
Atlantic American Properties, Inc./ Club at Irish Creek, LLC	Real Estate	52,273,527	1.51%
Trinity of Cabarrus LTD/Shoe Show	Shoe Distribution	48,775,597	1.41%
Afton Ridge Joint Venture LLC/ CK Afton Ridge Shopping Center	Real Estate	37,077,430	1.07%
BNP Paribus Leasing Corp.	Warehousing	30,839,790	0.89%
Duke Energy Corporation	Utility	33,772,162	0.97%
Integra Springs LLC	Real Estate	26,222,780	0.75%
The Grand in Kannapolis LLC	Real Estate	21,431,010	0.62%
Target Corporation	Retail	<u>13,428,850</u>	<u>0.38%</u>
Total		<u>\$ 546,563,438</u>	<u>15.77%</u>

Note: Castle & Cooke LLC, Atlantic American Properties, Inc., and Club at Irish Creek, LLC are owned or controlled by David H. Murdock.

Statistical Section

The information presented in this section is provided for additional analysis purposes only and has not been subjected to audit verification as presented.

Financial Trends - These tables contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Net Position by Component	Table 1
Changes in Net Position	Table 2
Fund Balances of Government Funds	Table 3
Changes in Fund Balances of Governmental Funds	Table 4

Revenue Capacity - These tables contain information to help the reader assess the government's most significant local revenue source, the property tax.

Assessed Value of Taxable Property	Table 5
Direct and Overlapping Property Tax Rates	Table 6
Principal Property Taxpayers	Table 7
Property Tax Levies and Collections	Table 8

Debt Capacity - These tables present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Ratios of General Bonded Debt Outstanding	Table 9
Ratios of Outstanding Debt by Type	Table 10
Direct and Overlapping Governmental Activities Debt	Table 11
Legal Debt Margin Information	Table 12
Pledged-Revenue Coverage	Table 13

Demographic and Economic Information - These tables offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Demographic and Economic Statistics	Table 14
Principal Employers	Table 15
Property Values and Construction	Table 19

Operating Information - These tables contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

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Operating Indicators by Functional Area	Table 17
Capital Asset Statistics by Function/Program	Table 18
Property Values & Construction	Table 19

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City of Kannapolis, North Carolina

Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

Table 1

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Net investment in capital assets	\$ 101,110,231	\$ 98,692,643	\$ 108,313,563	\$ 111,062,894	\$ 112,058,185	\$ 111,834,384	\$ 112,112,277	\$ 103,738,770	\$ 104,874,655	\$ 105,486,089
Restricted	1,930,059.00	3,395,249.00	93,118.00	100,543.00	638,142.00	358,166.00	650,469.00	3,555,327.00	3,643,925.00	3,242,761.00
Unrestricted	6,356,718.00	4,977,415.00	6,576,175.00	8,240,901.00	8,821,101.00	7,108,071.00	6,241,605.00	1,424,101.00	(1,135,200.00)	639,508.00
Total governmental activities net position	\$ 109,397,008	\$ 107,065,307	\$ 114,982,856	\$ 119,404,338	\$ 121,517,428	\$ 119,300,621	\$ 119,004,351	\$ 108,718,198	\$ 107,383,380	\$ 109,368,358
Business-type activities										
Net investment in capital assets	\$ 24,880,056	\$ 34,330,849	\$ 35,047,616	\$ 39,611,405	\$ 44,953,431	\$ 46,667,875	\$ 47,301,613	\$ 54,487,983	\$ 57,455,553	\$ 58,647,480
Restricted	1,034,916.00	3,400,083.00	-	-	-	-	737,788.00	3,791,001.00	-	-
Unrestricted	4,488,452.00	(3,118,592.00)	2,495,854.00	6,104,217.00	7,486,575.00	6,751,417.00	8,151,159.00	3,017,759.00	6,252,250.00	4,916,689.00
Total business-type activities net position	\$ 30,403,424	\$ 34,612,340	\$ 37,543,470	\$ 45,715,622	\$ 52,440,006	\$ 53,419,292	\$ 56,190,560	\$ 61,296,743	\$ 63,707,803	\$ 63,564,169
Primary government										
Net investment in capital assets	\$ 125,990,287	\$ 133,023,492	\$ 143,361,179	\$ 150,674,299	\$ 157,011,616	\$ 158,502,259	\$ 159,413,890	\$ 158,226,753	\$ 162,330,208	\$ 164,133,569
Restricted	2,964,975.00	6,795,332.00	93,118.00	100,543.00	638,142.00	358,166.00	1,388,257.00	7,346,328.00	3,643,925.00	3,242,761.00
Unrestricted	10,845,170.00	1,858,823.00	9,072,029.00	14,345,118.00	16,307,676.00	13,859,488.00	14,392,764.00	4,441,860.00	5,117,050.00	5,556,197.00
Total primary government net position	\$ 139,800,432	\$ 141,677,647	\$ 152,526,326	\$ 165,119,960	\$ 173,957,434	\$ 172,719,913	\$ 175,194,911	\$ 170,014,941	\$ 171,091,183	\$ 172,932,527

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

City of Kannapolis, North Carolina

**Changes in Net Position,
Last Ten Fiscal Years**
(accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
General government	\$ 2,818,043	\$ 2,721,513	\$ 5,954,847	\$ 4,064,967	\$ 5,480,666	\$ 5,217,220	\$ 6,573,229	\$ 2,876,218	\$ 8,102,674	\$ 7,776,879
Public safety	8,762,387	9,156,765	9,732,439	9,771,065	8,056,798	10,106,618	11,274,955	13,398,151	12,522,436	15,028,400
Public works	4,928,663	6,891,114	7,394,058	4,232,321	2,917,652	8,604,227	6,942,707	8,711,143	7,667,867	5,491,725
Community development	1,853,929	1,489,664	2,258,889	5,008,918	8,978,434	8,452,958	4,359,156	14,578,247	1,532,947	1,754,181
Parks and recreation	544,014	933,862	1,207,935	1,277,845	1,326,417	1,267,508	1,545,225	1,940,932	1,930,657	2,171,625
Interest on long term debt	106,714	177,399	232,533	326,864	491,511	607,269	550,869	1,868,114	2,275,952	2,282,790
Total governmental activities	19,013,750	21,370,317	26,780,701	24,681,980	27,251,478	34,255,800	31,246,141	43,372,805	34,032,533	34,505,600
Business-type activities:										
Water and sewer	9,083,893	9,809,290	10,193,680	11,132,396	11,915,757	11,711,770	11,260,842	11,184,796	13,045,102	11,427,458
Stormwater	-	-	-	96,893	1,010,785	1,484,523	1,404,707	1,269,793	1,456,327	1,691,032
Environmental services	-	-	-	-	-	-	-	-	426,917	3,314,268
Total business-type activities	9,083,893	9,809,290	10,193,680	11,229,289	12,926,542	13,196,293	12,665,549	12,454,589	14,908,346	16,432,758
Total primary government expenses	\$ 28,097,643	\$ 31,179,607	\$ 36,974,381	\$ 35,911,269	\$ 40,178,020	\$ 47,452,093	\$ 43,911,690	\$ 55,827,394	\$ 48,940,879	\$ 50,938,358
Program Revenues										
Governmental activities										
Charges for services:										
General government	\$ 158,916	\$ 1,157,017	\$ 241,131	\$ 523,213	\$ 1,669,101	\$ 1,157,321	\$ 1,183,885	\$ 2,309,961	\$ 2,422,458	\$ 2,117,978
Public safety	116,998	34,286	105,899	85,309	138,729	123,708	152,380	134,752	135,147	118,039
Public works	27,003	124,033	194,307	93,598	189,121	56,042	7,569	97,957	43,584	25,496
Community development	-	173,504	1,273,755	831,686	113,921	183,853	110,048	59,346	33,073	136,436
Parks and recreation	39,115	44,766	79,498	138,140	258,770	248,658	260,368	257,559	275,314	278,762
Interest on long term debt	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions:										
General government	273,361	237,285	9,141	90,059	242,694	95,044	32,536	204,102	26,779	65,459
Public safety	2,000	-	1,000	11,700	135,590	87,969	27,946	601,866	29,086	970,457
Public works	209,361	1,000	1,282,688	1,266,278	23,000	-	-	-	-	-
Community development	29,522	593,095	-	-	1,249,502	200,224	-	-	-	-
Parks and recreation	56,981	72,137	25,643	15,574	-	8,054	-	-	-	-
Capital grants and contributions:										
General government	-	-	-	-	257,658	1,206,109	589,733	366,447	2,993	1,535,880
Public safety	-	1,281,932	-	-	201,600	18,000	128,429	175,895	382,428	298,501
Public works	1,132,497	-	-	2,474,778	1,556,557	1,935,141	1,508,354	1,480,739	1,730,748	1,467,612
Community development	594,888	-	13,073,927	572,627	1,054,425	1,004,227	344,587	958,208	444,896	357,998
Parks and recreation	-	699,299	408,430	408,430	425,507	777,258	31,990	-	-	-
Total governmental activities program revenues	2,640,642	4,418,354	16,286,989	6,511,392	7,516,175	7,101,608	4,377,825	6,646,832	5,526,506	7,372,618
Business-type activities:										
Charges for Services:										
Water and sewer	9,362,726	10,200,069	11,154,949	13,462,950	14,002,930	12,050,123	12,146,279	13,134,631	13,626,961	13,661,233
Stormwater	-	-	-	217,957	1,440,842	1,388,588	1,397,991	1,472,388	1,503,831	1,671,729
Environmental services	-	-	-	-	-	-	-	35,076	630,730	1,204,360
Capital grants and contributions:										
Water and sewer	700,275	1,286,425	1,379,748	5,451,482	4,013,945	609,075	2,084,060	2,775,165	1,137,813	236,334
Environmental services	10,063,001	11,486,494	12,534,697	19,132,389	19,457,717	14,047,786	15,628,330	17,417,260	16,966,835	16,834,028
Total business-type activities program revenues	\$ 12,703,643	\$ 15,904,848	\$ 28,821,686	\$ 25,643,781	\$ 26,973,892	\$ 21,149,394	\$ 20,006,155	\$ 24,064,092	\$ 22,493,341	\$ 24,206,646

City of Kannapolis, North Carolina

Changes in Net Position,
Last Ten Fiscal Years
(accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net (Expense)/Revenue										
Governmental activities	\$ (16,373,108)	\$ (16,951,963)	\$ (10,493,712)	(18,170,888)	(19,735,303)	(27,154,192)	(26,868,316)	(36,725,973)	(28,506,027)	(27,132,982)
Business-type activities	979,108	1,677,204	2,341,017	7,903,100	6,531,175	851,493	2,962,781	4,962,671	2,058,489	401,270
Total primary government net (expense)/revenue	\$ (15,394,000)	\$ (15,274,759)	\$ (8,152,695)	\$ (10,267,488)	\$ (13,204,128)	\$ (26,302,699)	\$ (23,905,535)	\$ (31,763,302)	\$ (26,447,538)	\$ (26,731,712)
General Revenues and Other Changes in Net Position										
Government Activities:										
Taxes:										
Ad valorem taxes	\$ 10,471,995	\$ 10,562,494	\$ 11,240,436	\$ 12,011,550	\$ 13,212,892	\$ 17,165,625	\$ 18,252,517	\$ 18,379,641	\$ 18,585,812	\$ 19,273,552
Sales tax	4,706,518	4,901,069	4,953,702	5,221,276	5,412,376	4,979,383	5,308,859	5,218,704	5,697,969	6,212,206
Other taxes and licenses	1,555,292	448,044	451,735	529,719	711,356	700,271	797,123	752,034	786,376	944,190
Franchise tax	1,564,014	1,311,127	1,311,127	1,311,127	1,575,791	1,724,124	1,778,600	1,829,991	1,825,228	1,840,520
Unrestricted intergovernmental revenues	-	332,467	456,009	542,918	501,719	209,215	69,088	227,683	514,623	186,820
Investment earnings	149,613	233,945	379,763	398,886	366,012	75,662	34,757	31,767	77,609	112,917
Gain on sale of capital assets	-	-	-	2,567,553	-	-	-	-	-	-
Miscellaneous	-	38,586	-	-	-	-	-	-	-	-
Transfers	-	(2,263,696)	(381,511)	9,041	68,246	83,106	331,102	-	(316,408)	-
Total general revenues and transfers	\$ 18,447,432	\$ 15,564,036	\$ 18,411,261	\$ 22,592,070	\$ 21,848,392	\$ 24,937,386	\$ 26,572,046	\$ 26,439,820	\$ 27,171,209	\$ 29,117,960
Business-type activities:										
Investment earnings	193,473	268,016	218,602	278,093	261,455	210,899	139,589	143,512	36,163	2,851
Transfers	-	2,263,696	371,511	(9,041)	(68,246)	(83,106)	(331,102)	-	316,408	(547,755)
Total business-type activities	\$ 193,473	\$ 2,531,712	\$ 590,113	\$ 269,052	\$ 193,209	\$ 127,793	\$ (191,513)	\$ 143,512	\$ 352,571	\$ (544,904)
Change in Net Position										
Governmental activities	\$ 2,074,324	\$ (1,387,927)	\$ 7,917,549	\$ 4,421,482	\$ 2,113,089	\$ (2,216,806)	\$ (296,270)	\$ (10,286,153)	\$ (1,334,818)	\$ 1,984,978
Business-type activities	1,172,581	4,208,916	2,931,130	8,172,152	6,724,384	979,286	2,771,268	5,106,183	2,411,060	(143,634)
Total primary government	\$ 3,246,905	\$ 2,820,989	\$ 10,848,679	\$ 12,593,634	\$ 8,837,473	\$ (1,237,520)	\$ 2,474,998	\$ (5,179,970)	\$ 1,076,242	\$ 1,841,344

City of Kannapolis, North Carolina

Table 3

Fund Balances, Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved	\$ 2,997,510	\$ 3,134,675	\$ 3,159,675	\$ 2,075,394	\$ 3,099,152	\$ 1,905,420	-	-	-	\$ -
Unreserved	4,026,218	3,489,963	1,788,495	4,192,992	3,352,881	3,730,455	-	-	-	-
Nonspendable	-	-	-	-	-	-	403,183	452,932	35,067	50,077
Restricted	-	-	-	-	-	-	2,100,043	2,990,315	2,517,474	2,285,043
Unassigned	-	-	-	-	-	-	3,873,774	2,677,156	4,135,479	6,705,693
Total General Fund	\$ 7,023,728	\$ 6,624,638	\$ 4,948,170	\$ 6,268,386	\$ 6,452,033	\$ 5,635,875	\$ 6,377,000	\$ 6,120,403	\$ 6,688,020	\$ 9,040,813
NCRC Project Development										
Financing 2010 Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-	-	-	21,430,987	11,335,714	5,691,569
Total NCRC Financing 2010 Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,430,987	\$ 11,335,714	\$ 5,691,569
All Other Governmental Funds										
Reserved	\$ 1,073,495	\$ 2,394,557	-	\$ 216,155	\$ 73,482	\$ 274,937	-	-	-	\$ -
Unreserved reported in:										
Special revenue funds	-	172,240	1,333,197	1,625,006	1,495,551	1,597,424	-	-	-	-
Capital project funds	-	1,367,776	49,025	1,365,570	3,986,075	1,054,355	-	-	-	-
Nonspendable	-	-	-	-	-	-	1,999,856	1,035,896	1,124,288	954,377
Restricted	-	-	-	-	-	-	-	1,249,743	308,387	3,679,898
Committed	-	-	-	-	-	-	-	(395,851)	(224,284)	(28,925)
Assigned	-	-	-	-	-	-	-	\$ 1,889,788	\$ 1,208,391	\$ 4,605,350
Total all other governmental funds	\$ 1,073,495	\$ 3,934,573	\$ 1,382,222	\$ 3,206,731	\$ 5,555,108	\$ 2,926,716	\$ 1,999,856	\$ 1,889,788	\$ 1,208,391	\$ 4,605,350

City of Kannapolis, North Carolina

Table 4

Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years

(modified accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Ad valorem taxes	\$ 9,853,321	\$ 10,782,950	\$ 11,282,250	\$ 12,121,715	\$ 13,273,196	\$ 17,588,594	\$ 17,906,657	\$ 18,235,726	\$ 18,600,124	\$ 19,032,093
Other taxes and licenses	5,081,834	5,349,113	5,405,437	5,750,995	6,123,732	5,679,654	6,105,982	5,970,738	6,484,345	7,156,396
Unrestricted intergovernmental revenues	1,564,014	1,643,594	1,767,136	1,854,045	2,077,510	1,933,339	1,847,688	2,057,674	2,339,851	2,027,340
Restricted intergovernmental revenues	3,197,581	2,871,185	3,166,584	2,438,872	3,874,031	3,676,626	2,322,628	3,635,063	2,128,837	4,247,054
Sales and services	341,925	524,153	1,660,604	1,418,643	1,162,557	1,305,558	1,194,667	912,170	2,100,728	1,767,442
Investment earnings	149,613	233,945	379,763	398,886	366,012	75,662	34,757	31,767	77,609	112,917
Miscellaneous	281,005	2,105,602	233,986	1,047,575	2,479,587	739,061	1,254,416	2,038,568	808,848	909,291
Total Revenues	20,469,293	23,510,542	23,895,760	25,030,731	29,356,625	30,998,494	30,666,795	32,881,706	32,540,342	35,252,533
Expenditures										
General Government	2,466,443	2,794,217	3,665,596	4,144,710	4,490,782	4,933,918	6,579,122	7,399,483	7,140,935	8,358,540
Public Safety	8,106,603	8,623,360	9,057,574	9,636,715	10,022,616	11,608,058	10,948,871	11,987,497	11,676,365	13,864,473
Public Works	4,922,642	4,947,190	5,955,483	5,704,829	6,111,576	6,202,776	5,337,280	6,488,853	5,830,901	3,087,720
Community development	494,990	569,396	640,020	616,870	711,182	777,870	731,061	731,434	1,678,721	1,701,631
Parks and recreation	837,886	881,198	1,112,928	1,235,216	1,326,417	1,502,279	1,339,737	1,443,490	4,473,578	1,549,358
General Services	-	-	-	-	-	-	-	-	-	-
Nondepartmental	-	-	-	-	-	-	-	-	-	-
Capital Outlay	3,642,212	3,358,101	7,891,451	7,397,042	10,364,347	7,913,029	3,808,041	13,947,035	10,293,679	3,527,028
Debt Service:										
Principal	2,066,514	1,646,932	1,745,094	2,737,719	2,346,409	3,048,879	3,205,950	2,456,470	2,405,841	8,803,248
Interest and fees	106,714	177,399	232,533	378,078	391,236	625,942	573,570	1,838,172	1,735,261	2,368,197
Total Expenditures	22,644,004	22,997,793	30,300,679	31,851,179	35,164,565	36,612,751	32,523,632	46,292,434	45,235,281	43,260,195
Excess of revenues over (under) expenditures	(2,174,711)	512,749	(6,404,919)	(6,820,448)	(6,407,940)	(5,614,257)	(1,856,837)	(13,410,728)	(12,694,939)	(8,007,662)
Other Financing Sources (Uses)										
Transfers in	707,460	898,870	1,548,473	1,520,509	1,401,824	664,051	2,071,283	1,080,307	703,865	6,862,654
Transfers out	(707,460)	(3,162,566)	(1,929,984)	(1,511,469)	(1,333,578)	(580,944)	(1,740,181)	(1,080,307)	(372,729)	(6,314,898)
Proceeds of installment financing	185,555	4,162,936	2,557,612	5,469,180	8,871,717	2,086,600	1,340,000	971,182	3,000,000	7,565,514
Debt service reserve	-	-	-	-	-	-	-	(381)	-	-
Capitalized interest	-	-	-	-	-	-	-	(139,824)	(825,714)	-
Payments to bondholders	-	-	-	-	-	-	-	(1,330,020)	-	-
Premium on long-term debt	-	-	-	-	-	-	-	789,593	-	-
Proceeds of Limited Obligation Bonds	-	-	-	-	-	-	-	34,184,500	-	-
Total other financing sources (uses)	185,555	1,899,240	2,176,101	5,478,220	8,939,963	2,169,707	1,671,102	34,475,050	2,485,886	8,113,270
Net change in fund balances	\$ (1,989,156)	\$ 2,411,989	\$ (4,228,818)	\$ (1,342,228)	\$ 2,532,023	\$ (3,444,550)	\$ (185,735)	\$ 21,064,322	\$ (10,209,053)	\$ 105,608
Debt service as a percentage of noncapital expenditures	11.44%	9.29%	8.83%	12.74%	10.78%	12.27%	12.68%	10.66%	11.85%	33.89%

Note: Per GFOA, the amount of capital outlay used to calculate the ratio of total debt service expenditures to noncapital expenditures should be the same as the reconciling item for capital outlay in the reconciliation between the government-wide statement of activities and the statement of revenues, expenditures, and changes in fund balance.

CITY OF KANNAPOLIS, NORTH CAROLINA

Table 5

**Assessed Value and Actual Value of Taxable Property
Last Ten Years**

Fiscal Year	Real Property	Personal Property	Public Service Companies (2)	Total Assessed Value	Total Direct Tax Rate (3)
2004	1,553,231,034	374,455,166	41,417,632	1,969,103,832	0.530
2005 (1)	1,841,972,356	283,165,906	46,964,110	2,172,102,372	0.497
2006	1,905,159,875	317,140,627	47,761,872	2,270,062,374	0.497
2007	2,025,621,228	320,862,906	54,259,528	2,400,743,662	0.497
2008 (1)	2,235,917,274	354,951,354	55,510,648	2,646,379,276	0.497
2009 (1)	3,244,822,362	246,649,354	57,180,279	3,548,651,995	0.490
2010	3,462,272,048	189,031,359	55,691,820	3,706,995,227	0.490
2011	3,486,066,202	195,285,505	56,141,913	3,737,493,620	0.490
2012 (1)	3,535,916,122	191,820,297	64,092,442	3,791,828,861	0.490
2013 (1)	3,090,633,951	207,389,228	64,386,561	3,362,409,740	0.560

(1) Increases in FY 2005, FY 2009 and FY 2013 include Cabarrus County revaluation. Increase in FY 2008 and FY 2012 includes Rowan County revaluation.

(2) Public service companies valuations are provided to the City by the North Carolina Department of Revenue. These amounts included both real and personal property.

(3) Per \$100 of value.

City of Kannapolis, North Carolina

Table 6

**Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years**

	2004 (1)	2005 (2)	2006	2007	2008 (3)	2009 (4)	2010	2011	2012 (5)	2013 (6)
City of Kannapolis:										
General Fund	0.530	0.497	0.497	0.497	0.497	0.490	0.490	0.490	0.490	0.560
County Rates:										
Cabarrus	0.560	0.530	0.630	0.629	0.630	0.630	0.630	0.630	0.630	0.700
Rowan	0.630	0.630	0.630	0.630	0.595	0.595	0.595	0.595	0.623	0.623

- Note: (1) Real property was revalued by Rowan County on January 1, 2003.
 (2) Real property was revalued by Cabarrus County on January 1, 2004.
 (3) Real property was revalued by Rowan County on January 1, 2007.
 (4) Real property was revalued by Cabarrus County on January 1, 2008.

CITY OF KANNAPOLIS, NORTH CAROLINA

Table 7

**Principal Property Taxpayers
Current Year and Ten Years Ago**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Fiscal Year 2013</u>			<u>Fiscal Year 2003</u>		
		<u>Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>	<u>Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>
Castle & Cooke NCRC	Real Estate	196,840,620	1	5.69%	-	-	-
Castle & Cooke LLC	Real Estate	85,901,672	2	2.48%	-	-	-
Atlantic American Properties, Inc./ Club at Irish Creek	Real Estate	52,273,527	3	1.51%	29,831,649	2	1.47%
Trinity of Cabarrus LTD /Shoe Show Afton Ridge Joint Venture LLC/	Shoe Distribution	48,775,597	4	1.41%	14,766,480	6	0.73%
CK Afton Ridge Shopping Center	Real Estate	37,077,430	5	1.07%	-	-	-
BNP Paribus Leasing Corp.	Warehousing	30,839,790	7	0.89%	-	-	-
Duke Energy Corporation	Utility	33,772,162	6	0.97%	15,830,033	4	0.78%
Integra Springs LLC	Real Estate	26,222,780	8	0.75%	-	-	-
Kellswater	Real Estate	-	-	-	-	-	-
The Grand in Kannapolis LLC	Real Estate	21,431,010	9	0.62%	-	-	-
Target Corporation	Retail	13,428,850	10	0.38%	-	-	-
Fieldcrest/Cannon, Inc	Textiles	-	-	-	150,352,853	1	7.41%
The Stanley Works	Manufacturing	-	-	-	26,764,826	3	1.32%
Concord Telephone Company	Utility	-	-	-	12,709,979	7	0.63%
CIT Group Equipment Financing	Equipment Leasing	-	-	-	15,343,104	5	0.76%
David H. Murdock	Real Estate	-	-	-	9,644,943	8	0.48%
Cloverleaf Shopping Center Assoc.	Real Estate	-	-	-	8,651,480	9	0.43%
HD Development of Maryland, Inc	Retail	-	-	-	6,968,910	10	0.34%
Totals		\$ 564,563,438		15.77%	290,864,257		14.35%

Note: Atlantic American Properties, Inc/Club at Irish Creek and Castle & Cooke LLC are owned or controlled by David H. Murdock

CITY OF KANNAPOLIS, NORTH CAROLINA

Table 8

**Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year	Taxes Levied for the Fiscal Year (Original Levy)	Discoveries	Abatements	Total Adjusted Levy	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
					Amount	Percentage of Original Levy		Amount	Percentage of Adjusted Levy
2004	10,463,820	183,408	(103,329)	10,543,899	9,560,632	90.67%	964,124	10,524,756	99.82%
2005	10,813,945	147,482	(137,539)	10,823,888	10,400,581	96.09%	404,772	10,805,353	99.83%
2006	11,325,147	57,037	(99,974)	11,282,210	10,911,354	96.71%	350,011	11,261,365	99.82%
2007	11,808,304	274,344	(150,952)	11,931,696	11,630,033	97.47%	283,966	11,913,999	99.85%
2008	13,145,903	138,268	(131,666)	13,152,505	12,849,354	97.70%	281,295	13,130,649	99.83%
2009	17,313,980	329,399	(25,459)	17,617,920	17,177,163	97.50%	186,219	17,363,382	98.56%
2010	18,211,307	171,026	(192,864)	18,189,469	17,471,125	96.05%	615,600	18,086,725	99.44%
2011	18,385,221	80,004	(72,720)	18,392,505	17,638,052	95.90%	605,112	18,243,164	99.19%
2012	18,661,612	115,408	(35,161)	18,741,859	18,053,024	96.32%	454,727	18,507,751	98.75%
2013	19,281,030	197,718	(148,628)	19,330,120	18,620,309	96.33%	-	18,620,309	96.33%

Source: City of Kannapolis Finance Department

**Ratios of General Bonded Debt Outstanding,
Last Ten Fiscal Years**

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property(2)	Per Capita(1)
2004	675,222	0.03%	18
2005	381,936	0.02%	10
2006	88,499	0.00%	2
2007	-	0.00%	-
2008	-	0.00%	-
2009	-	0.00%	-
2010	-	0.00%	-
2011	-	0.00%	-
2012	-	0.00%	-
2013	-	0.00%	-

Notes: Details regarding the City's outstanding debt can be found in the Notes to the Financial State

(1) See Table 14 for population data.

(2) See Table 5 for total assessed value of property.

CITY OF KANNAPOLIS, NORTH CAROLINA

Table 10

**Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

Fiscal Year	Governmental Activities				Business-type Activities				Total Primary Government	Per Capita (1)	Percentage of Personal Income (1)
	Installment Obligations	U.S. Gov. Guaranteed Notes	Limited Obligation Bonds	Installment Obligations	General Obligation Bonds	W/S Revenue Bonds	Limited Obligation Bonds				
2004	7,502,376	1,503,000	-	4,632,272	675,222	36,971,685	-	51,284,555	1,326	1.31%	
2005	10,103,426	1,418,000	-	4,416,226	381,936	35,018,869	-	51,338,457	1,310	1.24%	
2006	11,005,946	1,328,000	-	3,843,185	88,499	32,980,142	-	49,245,772	1,227	1.11%	
2007	12,995,769	1,975,000	-	4,520,423	-	30,630,074	-	50,121,266	1,214	1.06%	
2008	19,670,078	1,826,000	-	6,360,457	-	28,333,220	-	56,189,755	1,313	1.11%	
2009	18,861,800	1,672,000	-	5,495,178	-	25,954,117	-	51,983,095	1,179	0.96%	
2010	17,154,850	1,513,000	-	6,261,384	-	23,477,283	-	48,406,517	1,078	0.91%	
2011	14,503,541	1,349,000	34,184,500	6,114,144	-	21,607,221	815,500	78,573,906	1,835	1.45%	
2012	11,357,867	1,180,000	34,425,000	8,718,447	-	17,620,006	-	73,301,320	1,695	1.35%	
2013	11,594,133	1,006,000	33,125,000	9,144,385	-	16,366,902	-	71,236,420	1,645	N/A	

* Information not yet available

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year. Calendar 2012 personal income not available to calculate fiscal year 2013.

City of Kannapolis, North Carolina

Table 11

Direct and Overlapping Governmental Activities Debt

As of June 30, 2013

(dollars in thousands)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes			
Cabarrus County General Obligation Debt	91,730	16.24%	14,897
Cabarrus County COPS	258,703	16.24%	42,013
Cabarrus County Capital Leases	3,531	16.24%	573
Rowan County General Obligation Debt	62,039	4.07%	2,525
Rowan County Installment Financings	25,526	4.07%	1,039
Subtotal, overlapping debt			61,048
City direct debt			<u>71,236</u>
Total direct and overlapping debt			<u><u>\$132,284</u></u>

Sources: Debt outstanding data and assessed value data used to estimate applicable percentages provided by each governmental unit.

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Kannapolis. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident -- and therefore responsible for repaying the debt -- of each overlapping government.

For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

City of Kannapolis, North Carolina

Table 12

**Legal Debt Margin Information,
Last Ten Fiscal Years**
(dollars in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Assessed Value of Property	\$ 1,969,103,832	\$ 2,172,102,372	\$ 2,270,062,374	\$ 2,400,743,662	\$ 2,646,379,276	\$ 3,548,651,995	\$ 3,706,995,227	\$ 3,737,493,620	\$ 3,791,828,861	\$ 3,562,409,740
Debt Limit, 8% of Assessed Value (Statutory Limitation)	157,528,307	173,768,190	181,604,990	192,059,493	211,710,342	283,892,160	296,559,618	298,999,490	303,346,309	268,992,779
Debt applicable to debt limitations:										
General obligation bonds	675,222	381,936	88,499	-	-	-	-	-	-	-
Limited obligation bonds	-	-	-	-	-	-	-	35,000,000	34,425,000	33,125,000
Installment obligations	13,637,647	15,937,652	16,177,132	19,491,194	27,856,536	26,028,978	24,929,234	21,966,688	21,256,314	21,744,518
Less: Amount of bonded debt incurred for water purposes	(182,850)	(103,428)	(23,966)	-	-	-	-	-	-	-
Total net debt applicable to limitations	14,130,019	16,216,160	16,241,665	19,491,194	27,856,536	26,028,978	24,929,234	56,966,688	55,681,314	54,869,518
Legal debt margin	\$ 143,398,288	\$ 157,552,030	\$ 165,363,325	\$ 172,568,299	\$ 183,853,806	\$ 257,863,182	\$ 271,630,384	\$ 242,032,802	\$ 247,664,995	\$ 214,123,261
Total net debt applicable to the limit as a percentage of debt limit	8.97%	9.33%	8.94%	10.15%	13.16%	9.17%	8.41%	19.05%	18.36%	20.40%

Note: NC Statute GS159-55 limits the City's outstanding debt to 8% of the appraised value of property subject to taxation. The legal debt margin is the difference between the debt limit and the City's net debt outstanding applicable to the limit, and represents the City's legal borrowing authority.

City of Kannapolis, North Carolina

Table 13

**Pledged-Revenue Coverage,
Last Ten Fiscal Years**

Fiscal Year	Water and Sewer Revenue Bonds						Coverage
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Total	
				Principal	Interest		
2004	\$ 10,024,790	\$ 5,826,703	\$ 4,198,087	\$ 1,722,315	\$ 1,714,762	\$ 3,437,077	1.22
2005	10,834,153	6,411,553	4,422,600	1,952,815	1,660,612	3,613,427	1.22
2006	11,763,087	6,457,356	5,305,731	2,038,727	1,597,450	3,636,177	1.46
2007	14,245,776	7,205,590	7,040,186	2,350,068	1,526,771	3,876,839	1.95
2008	14,807,217	8,180,463	6,626,754	2,296,854	1,424,410	3,721,264	1.78
2009	12,812,510	7,878,465	4,934,045	2,379,103	1,335,221	3,714,324	1.33
2010	12,842,521	7,495,923	5,346,598	2,476,833	1,240,468	3,717,301	1.44
2011	13,835,755	7,500,447	6,335,308	1,870,064	1,129,038	2,999,102	2.11
2012	13,662,511	9,097,365	4,565,146	1,547,514	932,191	2,479,705	1.84
2013	13,664,084	8,431,200	5,232,884	1,253,104	526,082	1,779,186	2.94

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include depreciation, amortization, and capital outlay.

Utility service charges equal total operating revenues plus investment earning.
Principal and interest of revenue bonds only are shown here.
Coverage equals net revenues divided by total debt service requirements.

City of Kannapolis, North Carolina

Table 14

**Demographic and Economic Statistics
Last Ten Fiscal Years**

Year	Population(1)		Personal Income (2) (thousands of dollars)		Per Capita Personal Income (2)		Public School Enrollment (3)		Unemployment Rate (4)	
	Cabarrus County	Rowan County	Cabarrus County	Rowan County	Cabarrus County	Rowan County	Cabarrus County	Rowan County	Cabarrus County	Rowan County
2004	38,679	3,358,830	4,194,646	3,358,830	29,842	25,326	4,608	7.6%	8.0%	
2005	39,187	3,501,321	4,453,542	3,501,321	30,500	26,123	4,673	4.7%	5.7%	
2006	40,141	3,689,822	4,803,337	3,689,822	32,111	27,376	4,837	4.1%	5.5%	
2007	41,273	3,929,245	5,157,773	3,929,245	33,161	29,001	5,017	4.8%	6.3%	
2008	42,806	4,029,907	5,551,258	4,029,907	34,099	29,407	5,177	5.7%	6.3%	
2009	44,104	4,278,802	5,946,765	4,278,802	35,280	30,620	5,117	11.7%	13.0%	
2010	44,891	4,286,389	5,869,800	4,286,389	34,083	30,444	5,203	10.3%	11.6%	
2011	42,828	4,124,902	6,057,692	4,124,902	34,030	29,750	5,239	10.4%	11.6%	
2012	43,242	4,111,873	6,453,148	4,111,873	35,561	29,792	5,290	9.3%	10.3%	
2013	43,312	*	*	*	*	*	5,442	7.9%	8.8%	

* Information not yet available.

Notes:

(1) The 2002-2008 population numbers were compiled by the City of Kannapolis Planning Department primarily from state and federal government sources and City permitting activity. The source for the 2009-2011 population numbers is the State of N.C. Dept. of Transportation. The 2011 population of 42,828 was determined by the 2010 census.

The 2012 population was determined by estimates from the US Census Bureau

The 2013 population was determined by estimates from the Planning Department in contact with the demographer for N.C. OSBM

(2) Source: State of N.C. Office of State Budget and Management

The 2012 figures were determined from the N.C. OSBM figures released late 2011

The 2013 Personal Income and Per Capita Personal Income for Cabarrus and Rowan Counties are not available as of October 2013

(3) Kannapolis City Schools

(4) Source: N. C. Employment Security Commission

These are County figures -- separate figures for the City of Kannapolis are not available.

2013 unemployment rates for Cabarrus and Rowan County were determined by NC. E.S.C as of April 2013

City of Kannapolis, North Carolina

**Principal Employers
Current Year and Ten Years Ago**

Employer	2013			2003		
	Employees	Rank	Percentage of Total Cabarrus & Rowan Counties Employment	Employees	Rank	Percentage of Total Cabarrus & Rowan Counties Employment
Kannapolis City Schools	750	1	0.47%	640	1	0.47%
Shoe Show	550	2	0.34%	270	5	0.20%
Cabarrus County Schools	383	3	0.24%	229	6	0.17%
City of Kannapolis	381	4	0.24%	316	2	0.23%
Wayne Brothers	367	5	0.23%	-	-	-
North Carolina Research Campus	345	6	0.21%	-	-	-
Stanley Works	219	8	0.14%	300	3	0.22%
Cabarrus Health Alliance	220	7	0.14%	-	-	-
Environmental services	208	9	0.13%	200	7	0.15%
Food Lion	200	10	0.12%	199	8	0.15%
Target Stores	-	-	-	195	9	0.14%
Wal-Mart	-	-	-	271 #	4	0.20%
Time Warner Cable	-	-	-	143	10	0.10%
Total	3,623		2.26%	2,763		2.02%

(1) No longer has a business location in the City

Sources: Cabarrus County Economic Development Corporation, telephone inquiries, N.C. ESC Industry data, and The Salisbury Post

For 2003, used Labor Force data from 6/30/02 CAFR, Salisbury Post and telephone inquiries

For 2013, used Labor Force data from N.C. ESC and Cabarrus County Economic Development Corporation, Cabarrus County Chamber of Commerce and Rowan County Chamber of Commerce

City of Kannapolis, North Carolina

Table 16

Full-time Equivalent City Government Employees by Function,
Last Ten Fiscal Years

Function/Program	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government	20	21	22	21	26	30	30	29	29	28
Public Safety	134	140	143	153	150	166	168	167	165	187
Public Works Admin & Engineering	7	7	7	7	8	6	6	6	6	7
Streets & Sign Shop	20	19	21	23	11	11	11	11	9	8
Stormwater	0	0	0 ³	2	13	13	12	13	13	13
Refuse	9	10	0 ¹	0	0	0	0	0	0	0
Water Sewer Billing & Collections	10	11	11	11	12	6 ⁴	5	6	6	7
Water Sewer Distribution	22	22	23	22	27	28	27	27	26	27
Water Treatment Plant	9 ²	9	9	9	10	10	10	10	10	10
Total	231	239	236	248	257	270	269	269	264	287

Source: City Finance Department-Kannapolis Annual Budget FY'13

Notes:

- ¹ This schedule represents number of persons employed as of June 30th of each year. Vacant positions are not included in the above numbers.
- ² Full time personnel work 2,080 hours per year (less vacation and sick leave) with the exception of Police and Fire which work 2184 and 2758 hours per year, respectively.
- ³ Data shows the elimination of Refuse Collection that was outsourced to a private contractor in 2006.
- ⁴ Data shows that in 2004 the City hired Water Treatment Plant employees that were previously employed by Pillowtex.
- ⁵ Data shows that in 2007 the City implemented a new division for Stormwater.
- ⁶ Data shows that in 2009 the City moved the Meter Readers from WSBC to WSD.

City of Kannapolis, North Carolina

Table 17

Operating Indicators by Functional Area
Last Ten Fiscal Years

Functional Area	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government										
Collection Rate For City Taxes	90.67%	96.09%	96.71%	97.47%	97.70%	97.50%	96.05%	95.90%	96.32%	96.33%
Applications For Employment Processed	618	1,000	NA	600	792	1,924	1,521	1,851	1,408	1,554
Hiring Rate	9.87%	4.90%	NA	8.67%	6.00%	5.30%	5.30%	3.67%	3.27%	4.40%
Parks & Recreation										
Concerts Presented By The City	5	5	6	6	7	14	15	14	12	14
Shelter Reservations	258	395	397	486	456	788	973	1029	943	911
Police										
Homicide and Deaths Investigations	11	18	22	14	16	15	12	7	13	55
Assault Investigations	19	28	37	53	67	45	66	66	70	34
Fire										
Response to all in City incidents within six minutes	NA	NA	NA	NA	NA	85%	90%	4849	4274	90%
Average Response Time (minutes) For Fire Calls	4.40	4.60	NA	4.43	4.35	NA	NA	NA	NA	3.49
Number of Fire Inspections For Businesses	832	825	871	420	583	902	1,136	1,280	1,550	682
Stormwater										
Shoulder Work and Ditches Cleared (Miles)	NA	NA	NA	NA	15	8.50	4.50	4.00	9.00	3.47
Drainage Structures (repaired & constructed)	NA	NA	NA	331	65	65	28	31	133	121
Streets And Sign Shop										
Reconstruction Resurfacing (Miles)	3.25	0.00	3.75	0.25	4.50	4.89	0.00	0.36	2.83	1.52
Pavement Repairs (Including Potholes)	1,896	1,395	1,173	1,293	1,968	1,917	1,526	1,538	935	1,242
Street Name Signs Installed Or Repaired	268	389	414	444	438	359	154	126	202	760
Information Signs Installed Or Repaired	651	366	166	220	268	458	332	268	466	638
Water Sewer Distribution										
Water Services Installed	70	87	116	472	99	59	32	35	39	54
Sewer Services Installed	27	70	60	80	71	40	21	4	11	11
Water Treatment Plant										
Total Water Treated (Per Billion Gallons)	1.01	1.10	NA	1.35	1.355	1.37	1.27	1.21	1.23	1.305
Unit Cost Of Treatment (\$/1,000 Gal)	0.940	0.903	NA	1.075	1.758	1.753	1.67	1.61	1.67	1.358
Water Sewer Billing Collections										
Average Number Of Walk In Customers	5,030	5,030	5,523	6,505	5,328	6,519	6,543	6,662	6,900	6,221
Water and Sewer Collection Percentage	99.35%	99.35%	99.47%	99.45%	99.08%	98.02%	97.00%	97.30%	98.80%	97.63%

Source: City Departments and Annual Budget Report

Notes: ¹ Data is Calendar Year

² Data is Average Per Month

NA - Data Not Available

City of Kannapolis, North Carolina

Table 18

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Parks And Recreation										
Park Facilities	7	7	7	7	8	8	8	8	8	9
Acreage	116	116	116	140	140	140	140	140	140	180
Picnic shelters	11	11	11	15	15	15	15	15	15	18
Softball fields	3	3	3	3	3	3	3	3	3	4
Playgrounds	5	5	5	5	5	5	5	6	6	10
Soccer Fields	1	1	1	1	1	1	1	1	1	1
Fire Protection										
Stations	4	4	4	4	4	5	5	5	5	5
Fire Trucks (Pumper)	9	9	9	9	9	10	10	10	10	10
Fire Trucks (Ladder)	1	1	1	1	1	1	2	2	2	2
Police										
Patrol Cars	55	55	55	64	60	60	66	69	65	56
Total Police Vehicles	89	89	89	90	93	105	106	107	102	104
Streets										
Miles of Streets	207	209	212	218	222	224	224	225	226	226
Water										
Miles of Water Mains	226	231	234	290	300	311	326	325	330	329
Wastewater										
Miles of Sanitary Sewers	220	220	300	300	300	315	315	325	318	317
Treatment Capacity	15	15	15	15	15	15	15	15	15	15

Sources: Various City Departments

NA=Data Not Available

¹ Data is by Million Gallons (MG)

City of Kannapolis, North Carolina

Table 19

**Property Values & Construction
Last Ten Fiscal Years**

Fiscal Year Ended June 30	New Construction				Total Value Of New Construction	Total Additions And Alterations	Total Value Of New Construction And Additions
	Commercial Construction Number of Units	Value	Number of Units	Residential Construction Value			
2013	41	\$22,997,714	287	\$24,471,966	\$47,469,680	\$9,821,608	\$57,291,288
2012	35	13,910,550	164	14,756,882	28,667,432	5,278,660	33,946,092
2011	29	14,849,799	66	6,303,349	21,153,148	10,592,739	31,745,887
2010	31	22,466,098	368	27,553,968	50,020,066	5,052,198	55,072,264
2009	34	17,723,212	405	38,676,547	56,399,759	5,397,414	61,797,173
2008	60	72,772,109	356	42,792,510	115,564,619	8,622,715	124,187,334
2007	57	93,987,826	407	55,850,536	149,838,362	10,548,075	160,386,437
2006	55	96,246,658	419	47,580,619	143,827,277	7,554,074	151,381,351
2005	36	12,127,180	308	33,391,124	45,518,304	3,514,667	49,032,971
2004	35	25,563,699	302	29,730,071	55,293,770	5,318,950	60,612,720

Source: Cabarrus County Inspections Department

COMPLIANCE SECTION

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 *Governmental Auditing Standards*.
 - Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance With OMB Circular A-133; And The State Single Audit Implementation Act
 - Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance; In Accordance With OMB Circular A-133; And The State Single Audit Implementation Act
 - Schedule of Findings and Questioned Costs
 - Summary Schedule of Prior Audit Findings
 - Schedule of Expenditures of Federal and State Awards
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"A Professional Association of Certified Public Accountants and Management Consultants"

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

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Kannapolis, 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, each major fund, and the aggregate remaining fund information of the City of Kannapolis, North Carolina, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the City of Kannapolis' basic financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kannapolis' 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 Kannapolis' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kannapolis' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kannapolis' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 31, 2013

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance With OMB Circular A-133; And The State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Kannapolis, North Carolina, compliance with the types of compliance requirements described in the OMB *Circular A-133 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 Kannapolis' major federal programs for the year ended June 30, 2013. The City of Kannapolis' major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Kannapolis' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 Kannapolis' 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 Kannapolis' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Kannapolis 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, 2013.

Report on Internal Control Over Compliance

Management of the City of Kannapolis 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 Kannapolis' 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 OMB Circular A-133, 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, non-compliance 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 non-compliance 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 31, 2013

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance; In Accordance With OMB Circular A-133; And The State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major State Program

We have audited the City of Kannapolis, North Carolina, compliance with the types of compliance requirements described in 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 Kannapolis' major State programs for the year ended June 30, 2013. The City of Kannapolis' major State programs are identified in the summary of auditor's 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 State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Kannapolis' major State 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 applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Kannapolis' 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 State program. However, our audit does not provide a legal determination of the City of Kannapolis' compliance.

Opinion on Each Major State Program

In our opinion, the City of Kannapolis 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 State programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Kannapolis 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 Kannapolis' internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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, non-compliance with a type of compliance requirement of a State 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 non-compliance with a type of compliance requirement of a State 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 State 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 31, 2013

CITY OF KANNAPOLIS, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
• Material weaknesses identified?	_____ Yes	<u> X </u> No	
• Significant deficiencies identified, not considered to be material weaknesses?	_____ Yes	<u> X </u> None reported	
Non-compliance material to financial statements noted?	_____ Yes	<u> X </u> No	

Federal Awards

Internal control over major federal programs:			
• Material weaknesses identified?	_____ Yes	<u> X </u> No	
• Significant deficiencies identified, not considered to be material weaknesses?	_____ Yes	<u> X </u> None reported	
Type of auditors' report issued on compliance for major federal programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ Yes	<u> X </u> No	

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA#</u>
Assistance to Firefighters	97.044
Dollar threshold used to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	_____ Yes <u> X </u> No

CITY OF KANNAPOLIS, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

State Awards

Internal control over major State programs:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified, not considered to be material weaknesses? _____ Yes X None reported

Type of auditors' report issued on compliance for major State programs: Unmodified

Any findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? _____ Yes X No

Identification of major State programs:

Powell Bill

CITY OF KANNAPOLIS, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

2. Financial Statements Findings

None reported

3. Federal Award Findings and Questioned Costs

None reported

4. State Award Findings and Questioned Costs

None reported

CITY OF KANNAPOLIS, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Finding: 2012-01

Status: Corrected

CITY OF KANNAPOLIS, NORTH CAROLINA

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>
Federal Awards:				
U.S. Department of Justice:				
Direct Programs:				
FY 2011 Recovery Act Justice Assistance Grant	16.579	2011-DJ-BX-0287	\$ 10,302	\$ -
U.S. Department of Housing and Urban Development:				
Direct Program:				
CDBG - Entitlement Grants Cluster Community Development				
Block Grant - Entitlement Grant	14.218	B-11-MC-37-0017	134,738	-
Block Grant - Entitlement Grant Passed Through City of Concord	14.218	B-12-MC-37-0017	65,458	-
Home Program	14.239	M-09-DC-370209	1,080	-
Home Program	14.239	M-10-DC-370209	57,744	-
Home Program	14.239	M-11-DC-370209	28,152	-
Home Program - program income	14.239	M-12-DC-370209	13,386	-
Total U.S. Department of Housing and Urban Development			<u>300,558</u>	<u>-</u>
U.S. Department of Transportation:				
Federal Highway Administration: Passed Through NC Department of Transportation: Highway Planning and Construction Cluster				
Dale Earnhardt Boulevard Sidewalks	20.205-1		77,419	-
Total U.S. Department of Transportation			<u>77,419</u>	<u>-</u>
Federal Emergency Management Agency:				
U.S. Department of Homeland Security:				
Direct Program:				
Assistance to Firefighters				
Staffing for Adequate Fire and Emergency Response	97.044	EMW-2011-FH-00117	520,444	-
Fire Prevention and Safety Grant	97.044	EMW-2011-FP-01173	90,835	-
Total Federal Emergency Management Agency:			<u>611,279</u>	<u>-</u>
Total Assistance - Federal Awards			<u>999,558</u>	<u>-</u>
State Awards:				
N.C. Department of Transportation:				
Powell Bill			-	1,244,815
Total Assistance - State Awards			<u>-</u>	<u>1,244,815</u>
Total Federal and State Awards			<u>\$ 999,558</u>	<u>\$ 1,244,815</u>

Notes to the Schedule of Federal and State Financial Assistance

1. The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of the City of Kannapolis and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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