

**CITY OF KANNAPOLIS
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2015

**CITY OF KANNAPOLIS
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2015

Prepared by:
Finance Department

Finance Director
Eric Davis

CITY OF KANNAPOLIS, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal	1-6
GFOA Certificate of Achievement for Excellence in Financial Reporting	7
Organizational Chart	8
Mayor and City Officials	9
FINANCIAL SECTION	
Independent Auditor's Report	10-12
Management's Discussion and Analysis	13-25
<u>Exhibit</u>	
Basic Financial Statements:	
Government-Wide Financial Statements:	
A Statement of Net Position	26-27
B Statement of Activities	28-29
Fund Financial Statements:	
C Balance Sheet - Governmental Funds	30-31
D Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	32
E Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	33
F General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	34

CITY OF KANNAPOLIS, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Fund Financial Statements (continued):	
G	Statement of Net Position - Proprietary Funds	35
H	Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	36
I	Statement of Cash Flows - Proprietary Funds	37
J	Statement of Fiduciary Net Position - Fiduciary Fund	38
K	Statement of Changes in Fiduciary Net Position - Fiduciary Fund	39
	Notes to the Financial Statements	40-85
<u>Schedule</u>		
	Supplemental Financial Data:	
A-1	Law Enforcement Officers' Special Separation Allowance - Required Supplementary Information	86
A-2	Other Post-Employment Benefits - Required Supplementary Information	87
A-3	Local Government Employees' Retirement System - Proportionate Share of Net Pension Liability (Asset)	88
A-4	Local Government Employees' Retirement System - City Contributions	89
	Combining and Individual Fund Statements and Schedules:	
B-1	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	90-94
B-2	Major Capital Project Fund - City Office/Public Safety Building - Schedule of Revenues and Expenditures - Budget and Actual	95
B-3	Combining Balance Sheet - Nonmajor Governmental Funds	96
B-4	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	97

CITY OF KANNAPOLIS, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Special Revenue Funds:	
C-1	Combining Balance Sheet - Nonmajor Special Revenue Funds	98
C-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	99
C-3	Community Development Block Grant - Schedule of Revenues and Expenditures - Budget and Actual	100-102
C-4	Transit Tax Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	103
	Capital Project Funds:	
D-1	Combining Balance Sheet - Nonmajor Capital Project Funds	104
D-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Capital Project Funds	105
D-3	James Street Area Plan Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	106
D-4	Irish Buffalo Creek Greenway Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	107
D-5	Dale Earnhardt Boulevard Sidewalk Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	108
D-6	Rogers Lake Road - Railroad Crossing Improvement Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	109
D-7	Pine Street Assisted Living Facility Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	110
D-8	Oak Avenue Sidewalk Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	111

CITY OF KANNAPOLIS, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Capital Project Funds: Continued	
D-9	Little Texas Road Sidewalk Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	112
D-10	Glen Afton to Goodman Road Connection Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	113
	Enterprise Funds:	
E-1	Water and Sewer Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	114-115
E-2	Shiloh Church Road Extension Water and Sewer Capital Project - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	116
E-3	Revenue Bonds 2014 Water and Sewer Capital Project - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	117
E-4	Highway 73 (Exit 55) Water Line Water and Sewer Capital Project - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	118
E-5	Mooresville Road Water Main Water and Sewer Capital Project - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	119
E-6	Stormwater Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	120
E-7	8th Street Culvert Replacement Stormwater Capital Project - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	121
E-8	Environmental Services Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	122
	Additional Financial Data:	
F-1	Schedule of Ad Valorem Taxes Receivable	123
F-2	Analysis of Current Tax Levy	124

CITY OF KANNAPOLIS, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Additional Financial Data: Continued	
F-3	Analysis of Current Tax Levy - Secondary Market Disclosures	125
F-4	Schedule of Principal Taxpayers	126
<u>Table</u>		
	Statistical Section:	
1	Net Position by Component - Last Ten Fiscal Years	127
2	Changes in Net Position - Last Ten Fiscal Years	128-129
3	Fund Balances, Governmental Funds - Last Ten Fiscal Years	130
4	Changes in Fund Balances, Governmental Funds - Last Ten Fiscal Years	131
5	Assessed Value and Actual Value of Taxable Property - Last Ten Years	132
6	Direct and Overlapping Property Tax Rates - Last Ten Fiscal Years	133
7	Principal Property Taxpayers - Current Year and Ten Years Ago	134
8	Property Tax Levies and Collections - Last Ten Fiscal Years	135
9	Ratio of Net General Bonded Debt Outstanding - Last Ten Fiscal Years	136
10	Ratio of Outstanding Debt by Type - Last Ten Fiscal Years	137
11	Direct and Overlapping Governmental Activities Debt as of June 30, 2015	138
12	Legal Debt Margin Information - Last Ten Fiscal Years	139
13	Pledged-Revenue Coverage - Last Ten Fiscal Years	140
14	Demographic and Economic Statistics - Last Ten Fiscal Years	141
15	Principal Employers - Current Year and Ten Years Ago	142

CITY OF KANNAPOLIS, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

<u>Table</u>		<u>Page</u>
16	Full-Time Equivalent City Government Employees by Function - Last Ten Fiscal Years	143
17	Operating Indicators by Functional Area - Last Ten Fiscal Years	144-145
18	Capital Asset Statistics by Function/Program - Last Ten Fiscal Years	146
19	Property Values and Construction - Last Ten Fiscal Years	147
	Compliance Section:	
	Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	148-149
	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	150-151
	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	152-153
	Schedule of Findings and Questioned Costs	154-156
	Summary Schedule of Prior Audit Findings	157
	Schedule of Expenditures of Federal and State Awards	158

Introductory Section

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

This page left blank intentionally.



October 22, 2015

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, 2015, 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 2015.

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, 2015 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 unmodified opinion that the City of Kannapolis's financial statements for the fiscal year ended June 30, 2015, 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.

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 45,000 and the assessed valuation for property tax purposes of \$3,584,202,000. 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. Currently, Kannapolis' population of 45,000 makes it the 20th largest City in North Carolina. There are over 2,450 businesses that have a presence in Kannapolis.

Most notably, Kannapolis is home to the North Carolina Research Campus "*NCRC*"; 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 D.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 D.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 oversees operations in the Core Lab and is expanding its presence on the campus by populating additional office space throughout the campus. 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 NC Research Campus. First, 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, as well as the expansion of Veteran's Park; the preeminent place of remembrance for those local residents who gave their lives in the service of their Country. 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. Also, 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. Additionally, in the summer of 2015, a 50,000 square foot state-of-the art data storage center was opened on the north end of the research campus providing much needed data storage services to companies on the campus and in the region.

In December of 2015, the City of Kannapolis will open its new 100,000 square foot; \$32 million dollar; City Hall and Public Safety Headquarters. The City Hall and Public Safety 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 6,500 square feet of public meeting space; available to the public. The building is located on the research campus and maintains a consistent appearance to other buildings on the campus.

The City of Kannapolis has completely recovered from the recent national recession. Currently, there are over 40 residential sub-divisions in the City with plans to build approximately 7,500 new homes and apartments within the next decade. Kannapolis has also seen success in the field of commercial growth and development. Stewart-Haas racing is expanding its auto racing facilities to include the first Formula 1 racing team based in North America. The new F1 team plans to begin competing globally in 2017. Kannapolis also was successful in recruiting Gordon Food Service's new food distribution center. This \$58 million capital investment by Gordon Foods Service will result in the employment of 275 well-paying jobs in the region.

Finally, in September of 2015, the City of Kannapolis completed a real estate transaction with Mr. D.H. Murdoch that saw the City acquire 46 acres of property in Downtown Kannapolis. The purchase includes eight blocks of buildings located on Oak Avenue, West Avenue, S. Main Street and West First Street. This property includes the former Cannon Village, the Gem Theatre, the current Kannapolis City Hall offices, Wells Fargo Bank, the current Kannapolis Police Department and the former Plant 4 site. The existing buildings have a total of 653,395 square

feet of available commercial and residential space.

The City will contract with the non-profit Development Finance Initiative (DFI), at the UNC-CH School of Government to assist in the revitalization of downtown Kannapolis. Once a long range strategic plan is in place, the City and DFI will work to attract developers who will purchase the property for a mix of residential apartments, offices, retail stores, restaurants. The City and DFI will also develop a plan to invest in people attractors such as a baseball stadium, family event attractors or a performing arts centers. The City anticipates this will take a minimum of 10 years to reach a status of significant development. It is widely believed that the success of the downtown revitalization efforts will be the most important economic development factor impacting the City of Kannapolis.

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, 2014. 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,



Eric Davis
Finance Director



Government Finance Officers Association

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

Presented to

**City of Kannapolis
North Carolina**

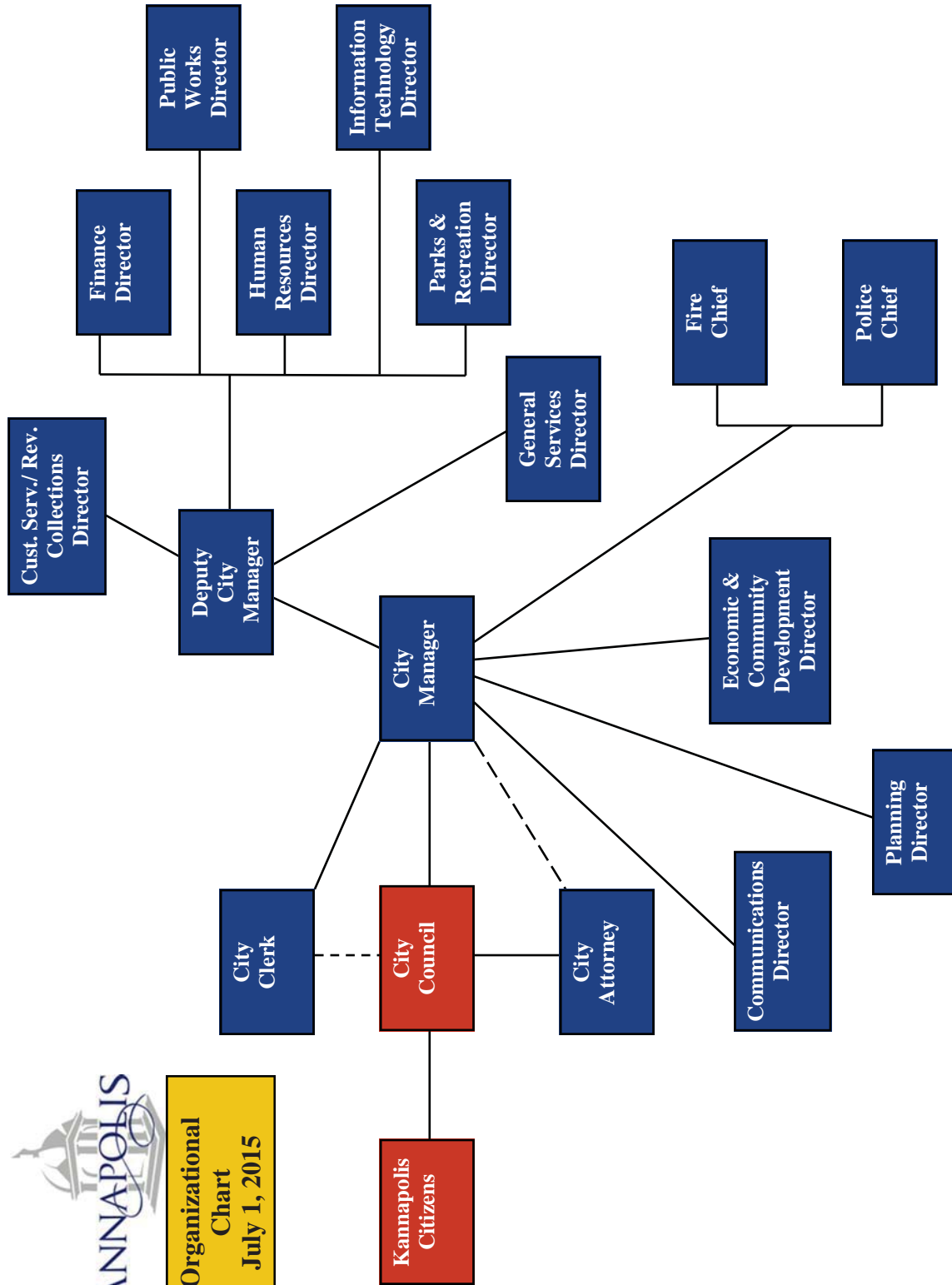
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO



**Organizational Chart
July 1, 2015**



**CITY OF KANNAPOLIS
NORTH CAROLINA**

MAYOR AND CITY OFFICIALS

MAYOR AND CITY COUNCIL

M. Darrell Hinnant – Mayor

Ryan G. Dayvault – Mayor Pro-tem

Roger D. Haas – Council Member

Tom Kincaid – Council Member

Dianne Berry – Council Member

Darrell Jackson – Council Member

Doug Wilson – Council Member

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 Resources Director

Walter M. Safrit, II
City Attorney

This page left blank intentionally.

Financial Section

- Independent Auditor's Report
 - Management's Discussion and Analysis
 - Basic Financial Statements
 - Combining and Individual Fund Financial Statements and Schedules
 - Additional Financial Data
-
-

This page left blank intentionally.

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, 2015, 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 of 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 *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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.

730 13th Avenue Drive SE ♦ Hickory, North Carolina 28602 ♦ Phone 828-327-2727 ♦ Fax 828-328-2324
13 South Center Street ♦ Taylorsville, North Carolina 28681 ♦ Phone 828-632-9025 ♦ Fax 828-632-9085
Toll Free Both Locations 1-800-948-0585 ♦ Website: www.martinstarnes.com

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, 2015, 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 the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance and the Other Post-Employment Benefits' Schedules of Funding Progress and Employer Contributions, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and 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 22, 2015 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, 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, North Carolina
October 22, 2015

This page left blank intentionally.

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, 2015. 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 and deferred outflows of the City of Kannapolis exceeded its liabilities and deferred inflows at the close of the fiscal year by \$182,187,782 (*net position*).
- The government's total net position increased by \$5,015,315, due to increases in both the governmental activities and business-type activities net position.
- As of the close of the current fiscal year, the City of Kannapolis' governmental funds reported combined ending fund balances of \$30,244,806, with a positive net change of \$10,512,739 in fund balance. Approximately 73% of this total amount, or \$22,045,057, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,860,914.
- The City of Kannapolis' total debt increased \$22,604,322, or 27%, during the current fiscal year. The key factor in this increase was the issuance of limited obligation bonds in the current year for the construction of a new City Hall and Public Safety Headquarters.
- The City holds the following underlying bond ratings:

Water and Sewer Revenue Bonds

Moody's	A1
Standard & Poor's	A+

Limited Obligation Bonds

Moody's	Aa3
Standard & Poor's	A+

Issuer Credit Rating

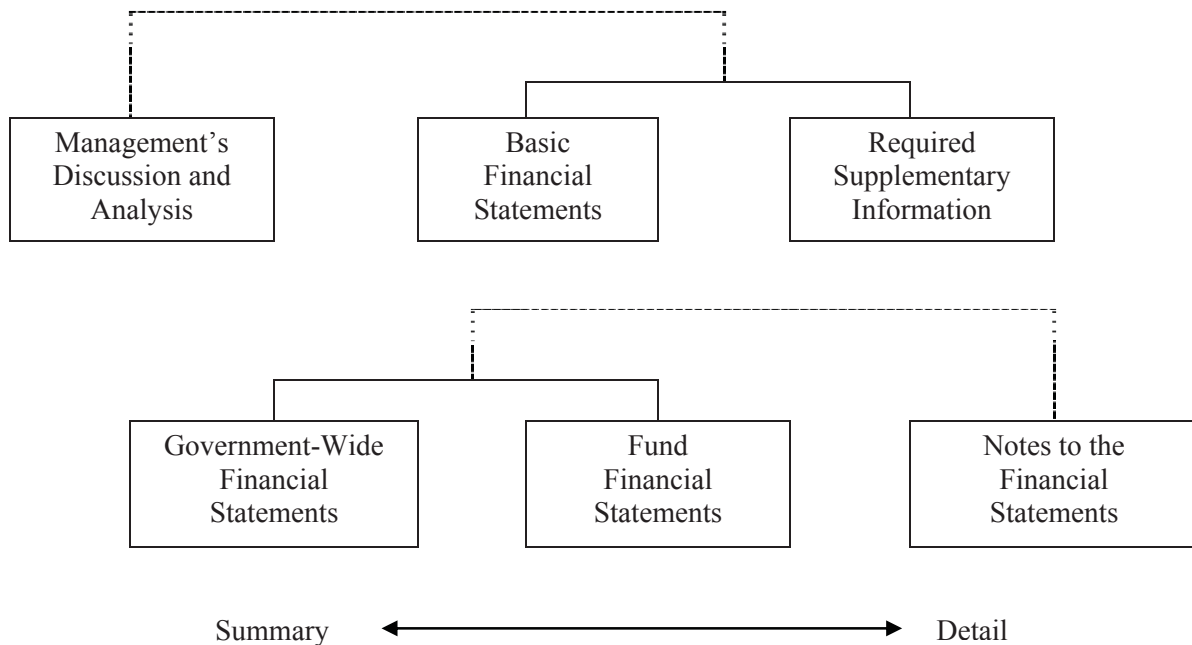
Standard & Poor's	AA-
-------------------	-----

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 (Exhibits 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** – with combining statements that provide details on the City's nonmajor governmental funds and Internal Service Fund, both 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 it has changed.

The *Statement of Net Position* includes all of the City's assets and deferred outflows of resources, 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 26 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 provides a focus on current financial resources. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine whether 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 twelve 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 City Office/Public Safety Building Capital Project Fund, which are considered to be major funds. Data from the other governmental funds is 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. The budget 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 34 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 environmental services 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, stormwater operations, and environmental services operations, which are considered major funds of the City.

The basic proprietary fund financial statements can be found on pages 35 through 37 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 38 and 39 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 40 through 85 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 86 through 89 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 90 through 113 of this report for the City's governmental funds and on pages 114 through 122 for the City's enterprise funds.

Interdependence with Other Entities. The City depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations.

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 (94%) 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 \$3,909,389 and \$6,480,166, respectively, and 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.

Also, the City implemented GASB Statement 68 this year. With the new reporting change, the City is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$2,781,329. Decisions regarding the allocations are made by the administrators of the pension plan, not by the City of Kannapolis' management.

City of Kannapolis' Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets:						
Current assets	\$ 36,266,890	\$ 23,960,723	\$ 14,433,345	\$ 22,037,655	\$ 50,700,235	\$ 45,998,378
Capital assets	165,265,364	145,792,272	98,579,952	91,926,332	263,845,316	237,718,604
Total assets	<u>201,532,254</u>	<u>169,752,995</u>	<u>113,013,297</u>	<u>113,963,987</u>	<u>314,545,551</u>	<u>283,716,982</u>
Deferred Outflows						
of Resources	<u>897,078</u>	<u>-</u>	<u>224,270</u>	<u>-</u>	<u>1,121,348</u>	<u>-</u>
Liabilities:						
Long-term liabilities						
outstanding	75,828,975	49,397,500	37,856,629	40,316,971	113,685,604	89,714,471
Other liabilities	8,995,812	7,242,455	6,207,663	6,786,040	15,203,475	14,028,495
Total liabilities	<u>84,824,787</u>	<u>56,639,955</u>	<u>44,064,292</u>	<u>47,103,011</u>	<u>128,889,079</u>	<u>103,742,966</u>
Deferred Inflows						
of Resources	<u>3,672,928</u>	<u>20,220</u>	<u>917,110</u>	<u>-</u>	<u>4,590,038</u>	<u>20,220</u>
Net Position:						
Net investment						
in capital assets	109,954,984	113,042,845	61,843,243	60,309,954	171,798,227	173,352,799
Restricted	3,909,389	9,130,511	-	-	3,909,389	9,130,511
Unrestricted	<u>67,244</u>	<u>(9,080,536)</u>	<u>6,412,922</u>	<u>6,551,022</u>	<u>6,480,166</u>	<u>(2,529,514)</u>
Total net position	<u>\$113,931,617</u>	<u>\$ 113,092,820</u>	<u>\$ 68,256,165</u>	<u>\$ 66,860,976</u>	<u>\$ 182,187,782</u>	<u>\$ 179,953,796</u>

The City's total net position increased by \$5,015,315, while unrestricted net position increased this fiscal year by \$3,928,797. This was due to a decrease in restricted net position and an increase in net investment in capital assets. Several particular aspects of the City's financial operations positively influenced the total net position:

- Capital assets increased by \$19,473,092 from fiscal year 2014 to 2015 in the governmental activities. The City is in the process of building a new City Hall and Public Safety Headquarters which accounted for the majority of the increase. The building should be completed in December 2015.
- The City's due from other governments decreased by \$2,861,577, primarily due to \$2,772,218 in grants receivable for the Pine Street Assisted Living Facility Fund in fiscal year 2014. This decreased the Restricted – Stabilization for State Statue in both the General Fund and Pine Street Assisted Living Facility Fund.
- The City financed the new City Hall and Public Safety Headquarters with limited obligation bonds which accounted for total long-term liabilities increasing by \$24,092,356.

City of Kannapolis' Changes in Net Position

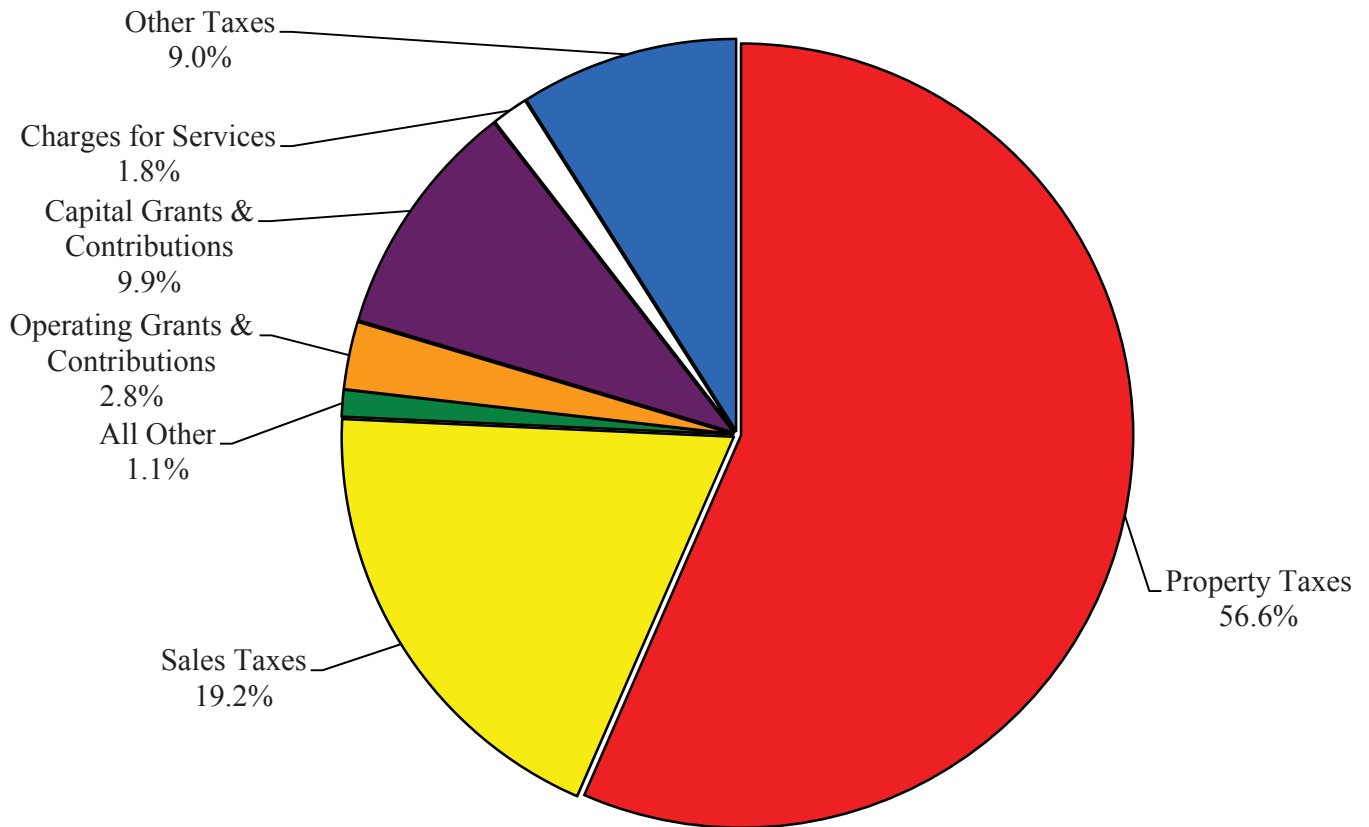
Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 583,867	\$ 780,041	\$ 17,092,294	\$ 17,545,955	\$ 17,676,161	\$ 18,325,996
Operating grants and contributions	1,084,937	1,724,272	-	-	1,084,937	1,724,272
Capital grants and contributions	3,778,242	9,991,341	1,330,735	1,655,040	5,108,977	11,646,381
General revenues:						
Property taxes	21,585,893	19,934,915	-	-	21,585,893	19,934,915
Other taxes	10,763,821	9,580,896	-	-	10,763,821	9,580,896
Other revenues	<u>401,277</u>	<u>320,348</u>	<u>19,507</u>	<u>45,109</u>	<u>420,784</u>	<u>365,457</u>
Total revenues	<u>38,198,037</u>	<u>42,331,813</u>	<u>18,442,536</u>	<u>19,246,104</u>	<u>56,640,573</u>	<u>61,577,917</u>
Expenses:						
General government	5,439,679	9,674,443	-	-	5,439,679	9,674,443
Public safety	16,074,597	15,707,714	-	-	16,074,597	15,707,714
Public works	5,179,692	5,639,307	-	-	5,179,692	5,639,307
Community development	1,829,369	1,760,114	-	-	1,829,369	1,760,114
Parks and recreation	2,454,355	2,100,876	-	-	2,454,355	2,100,876
Water and sewer	-	-	12,481,710	12,569,394	12,481,710	12,569,394
Stormwater	-	-	1,586,097	1,544,649	1,586,097	1,544,649
Environmental services	-	-	3,523,274	3,355,254	3,523,274	3,355,254
Other	<u>3,056,485</u>	<u>2,204,897</u>	<u>-</u>	<u>-</u>	<u>3,056,485</u>	<u>2,204,897</u>
Total expenses	<u>34,034,177</u>	<u>37,087,351</u>	<u>17,591,081</u>	<u>17,469,297</u>	<u>51,625,258</u>	<u>54,556,648</u>
Increase (decrease) in net position before transfers	4,163,860	5,244,462	851,455	1,776,807	5,015,315	7,021,269
Transfers	<u>(1,100,000)</u>	<u>(1,520,000)</u>	<u>1,100,000</u>	<u>1,520,000</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>3,063,860</u>	<u>3,724,462</u>	<u>1,951,455</u>	<u>3,296,807</u>	<u>5,015,315</u>	<u>7,021,269</u>
Net Position:						
Beginning of year - July 1	113,092,820	109,368,358	66,860,976	63,564,169	179,953,796	172,932,527
Restatement	<u>(2,225,063)</u>	<u>-</u>	<u>(556,266)</u>	<u>-</u>	<u>(2,781,329)</u>	<u>-</u>
Beginning of year - July 1, as restated	<u>110,867,757</u>	<u>109,368,358</u>	<u>66,304,710</u>	<u>63,564,169</u>	<u>177,172,467</u>	<u>172,932,527</u>
End of year - June 30	<u>\$113,931,617</u>	<u>\$ 113,092,820</u>	<u>\$ 68,256,165</u>	<u>\$ 66,860,976</u>	<u>\$ 182,187,782</u>	<u>\$ 179,953,796</u>

Governmental Activities. Net position increased in the City’s governmental activities this fiscal year by \$3,063,860. Key elements of this increase are as follows:

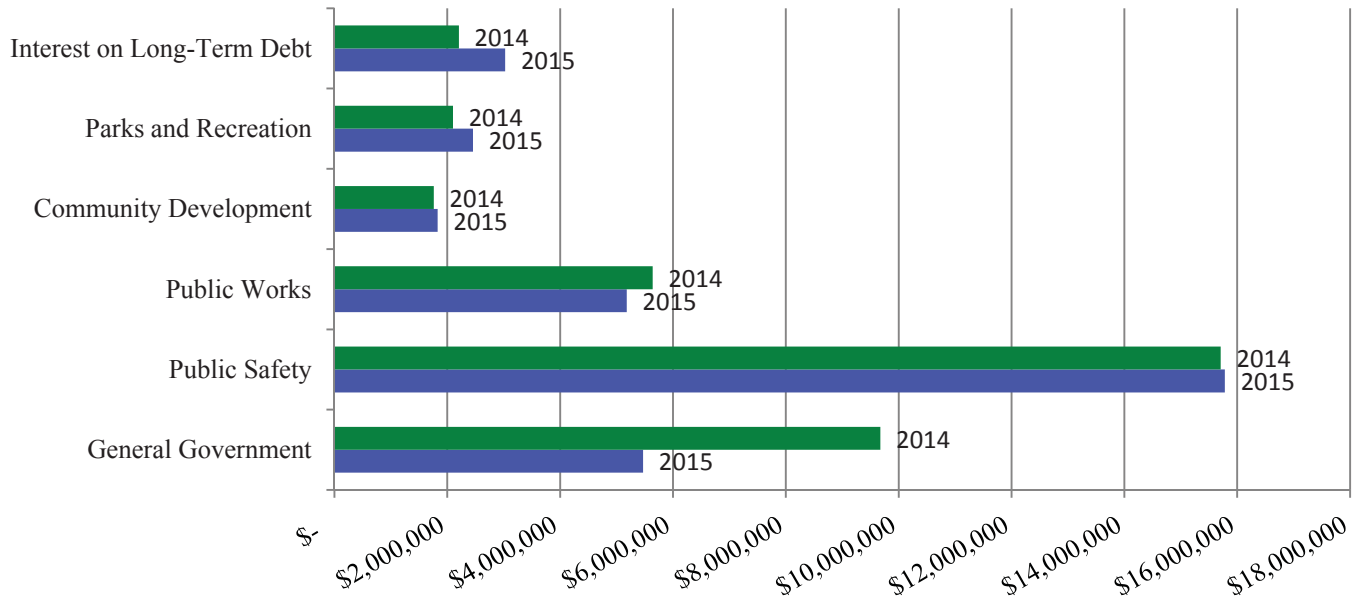
- Property tax revenues increased \$1,650,978 from fiscal year 2014. The property tax rate increased by 4 cents from fiscal year 2014 to fiscal year 2015.
- Sales tax collected increased \$854,951. This is a 13.2% increase from fiscal year 2014. Franchise tax also increased by 30.0% or \$571,001.
- The City continues to hold down expenses for the General Fund. Overall revenues exceed the General Fund budget by \$2,359,003, while expenditures were under budget by \$1,751,478.

Revenues by Source - Governmental Activities



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 \$21,585,893, while sales taxes total \$7,341,438. The third largest source of revenue is through capital grants and contributions. The City received grants from the Golden Leaf Foundation, the United States Department of Housing and Urban Development, the United States Department of Transportation, the United States Department of Homeland Security, and the Federal Emergency Management Agency. The City also received property donations totaling \$1,330,735. This donated property came from developers donating \$223,720 in sidewalks and \$890,160 in streets.

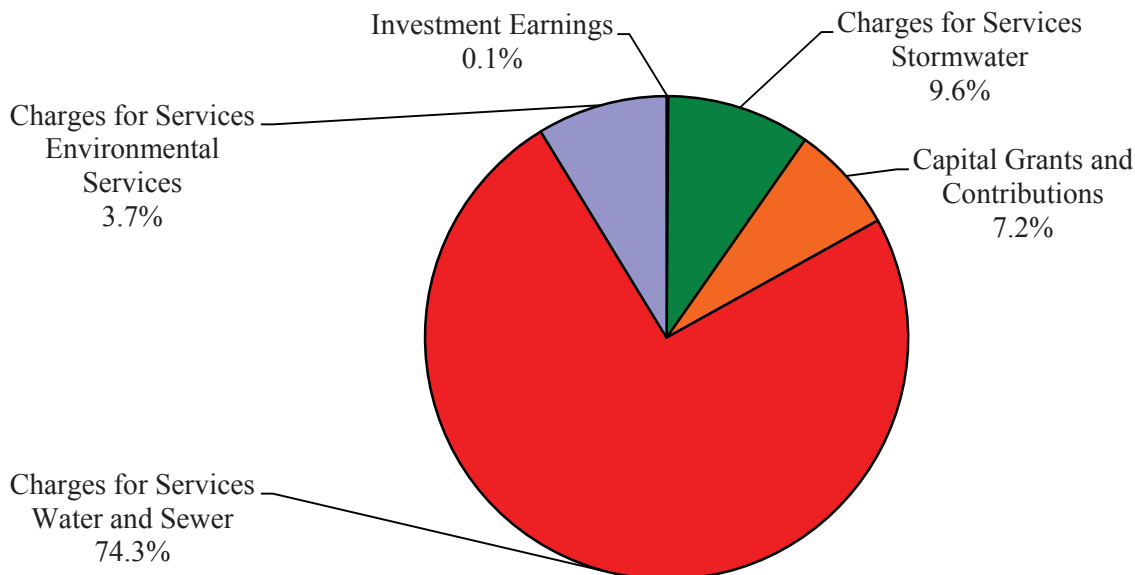
Government Activities Expenses



Business-Type Activities. Business-type activities increased the City of Kannapolis' net position by \$1,951,455. Key elements of this increase are as follows:

- Revenue in the business-type activities continue to cover expenditures. The City has worked to match revenue with expenditures and decrease dependence on transfers from other funds.
- Capital contributions were \$1,330,735 in the current fiscal year. The City received the capital from developers donating water and sewer lines.

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 a \$9,860,914, while total fund balance reached \$17,636,914. The City currently has an available fund balance of 45% of General Fund expenditures and transfers out, while total fund balance represents 51% of the same amount. The City Council adopted a fund balance policy stipulating an acceptable range between 25% and 33% of General Fund expenditures to available fund balance in case of unforeseen needs or opportunities, as well as meeting the cash flow needs of the City. Since fund balance is over 33%, the City will develop a spending plan utilizing more cash payments for capital projects or other capital assets.

At June 30, 2015, the governmental funds of the City of Kannapolis reported a combined fund balance of \$30,244,806 with a net increase in fund balance of \$10,512,739. Included in this change in fund balance was a \$7,289,423 increase in fund balance in the City Hall and Public Safety Headquarters Fund. During the fiscal year the fund issued long-term debt of \$25,220,000 and capital outlay of \$20,286,671 for the building.

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 \$1,876,202, or 5.4%. The largest amendment to the General Fund was to budget the loan proceeds of \$770,046 to purchase a fire truck and dump truck for public works. 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 \$2,359,003, or 6.9%, more than the budgeted amount. Property tax revenue and sales tax revenue were over budget by \$741,331 and \$525,236, respectively. Total revenue increased by 5.6% from fiscal year 2014.

The total variance from the final budget numbers to the actual results for expenditures totaled \$1,751,478, or 5.1%, of the final budget.

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, 2015 was \$6,412,922, compared to \$6,551,022 at June 30, 2014. 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, 2015 totaled \$263,845,316 (net of accumulated depreciation). This is an increase from June 30, 2014 of \$26,126,712. These assets include land, buildings, improvements, machinery and equipment, and infrastructure.

Major capital asset transactions during the year included the following:

- \$20,286,671 in construction in progress for the new City Hall and Public Safety Headquarters
- \$5,307,644 for the construction of the Albemarle Water Line Project
- \$862,914 for the Meter Exchange Project
- \$608,420 for a Fire Engine

City of Kannapolis' Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 13,875,862	\$ 13,848,807	\$ 730,342	\$ 730,342	\$ 14,606,204	\$ 14,579,149
Construction in progress	22,405,463	2,387,018	16,742,408	10,811,783	39,147,871	13,198,801
Rowan County water rights	-	-	2,411,100	2,411,100	2,411,100	2,411,100
Buildings and systems	33,934,516	33,934,516	22,946,239	22,876,982	56,880,755	56,811,498
Improvements other than buildings	7,133,214	7,133,214	-	-	7,133,214	7,133,214
Machinery and equipment	16,933,411	15,618,972	3,469,937	2,999,728	20,403,348	18,618,700
Infrastructure	152,488,717	150,335,895	95,857,475	93,067,025	248,346,192	243,402,920
Total	<u>246,771,183</u>	<u>223,258,422</u>	<u>142,157,501</u>	<u>132,896,960</u>	<u>388,928,684</u>	<u>356,155,382</u>
Less accumulated depreciation and amortization	<u>81,505,819</u>	<u>77,466,150</u>	<u>43,577,549</u>	<u>40,970,628</u>	<u>125,083,368</u>	<u>118,436,778</u>
Capital assets, net	<u>\$ 165,265,364</u>	<u>\$ 145,792,272</u>	<u>\$ 98,579,952</u>	<u>\$ 91,926,332</u>	<u>\$ 263,845,316</u>	<u>\$ 237,718,604</u>

For additional information on the City's capital assets, see pages 55 through 57 of this report.

Long-Term Debt

At the end of the current fiscal year, the City of Kannapolis had total debt outstanding of \$106,434,029. Of this amount, \$31,325,159 represents bonds secured solely by water and sewer revenues. (i.e. revenue bonds). The City also had \$17,515,937 in outstanding installment obligations and \$57,592,933 in outstanding limited obligation bonds. Through an intergovernmental agreement, Cabarrus County makes contributions for approximately 35% for the limited obligation bonds annually.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Installment obligations	\$ 10,493,170	\$ 10,990,452	\$ 7,022,767	\$ 7,929,907	\$ 17,515,937	\$ 18,920,359
Revenue bonds	-	-	31,325,159	33,224,348	31,325,159	33,224,348
Limited obligation bonds	<u>57,592,933</u>	<u>31,685,000</u>	<u>-</u>	<u>-</u>	<u>57,592,933</u>	<u>31,685,000</u>
Total	<u>\$ 68,086,103</u>	<u>\$ 42,675,452</u>	<u>\$ 38,347,926</u>	<u>\$ 41,154,255</u>	<u>\$ 106,434,029</u>	<u>\$ 83,829,707</u>

In August 2014, the City issued \$25,220,000 in limited obligation bonds to fund the City Hall and Public Safety Headquarters. The building should be complete in December 2015.

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, 2015, the legal debt limit for the City totaled \$211,627,320. 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 70 through 81 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Cabarrus County in June 2015 was 5.3%, which is a decrease from a rate of 6.0% in June 2014. A portion of the City (18%) is located in Rowan County. The unemployment rate in Rowan County decreased to 6.0% in June 2015, compared to 6.5% in June 2014.
- Population in the City has increased from 40,141 in 2006 to 44,359 in 2015.

All of these factors were considered in preparing the City of Kannapolis' budget for fiscal year 2016. The City Council increased the tax rate 3 cents to 63 cents per \$100. The funds were used to pay for the purchase of the City's downtown. The 3 cent increase in the property tax rate will cover the debt service on the special obligation bonds issued in August 2015. The overall General Fund budget increased \$2,622,366, or 7.3%, from the current year budget.

The fiscal year 2016 Water and Sewer Budget increased 5.1%, or \$765,679, from the currently year budget. The increase is not part a rate increase. However, additional revenue is expected due to growth in the system and more accurate water meter readings with the installation of the new water meters city-wide. In fiscal year 2015, the water and sewer budget increased 1.1%, or \$162,985 from the previous fiscal year.

The Stormwater Fund budget for fiscal year 2016 totaled \$2,025,000 which represents a 1.7%, or \$33,464, increase from the 2015 budget. As part of the ten year financial model the rates for stormwater increased by an average of 80 cents per customer. This will allow the fund to become self-sufficient in fiscal year 2016. 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 2016 Environmental Fund experienced a 5.0%, or \$176,518, increase from the current year budget. 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 2016 the City added a new enterprise fund called the Downtown Fund. As stated in the name it will account for all revenues and expenditures associated with the purchase of the Kannapolis Downtown. The budget for fiscal year 2016 is \$1,987,825.

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, 401 Laureate Way, Kannapolis, North Carolina 28081.

This page left blank intentionally.

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.

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets:			
Current assets:			
Cash and cash equivalents	\$ 12,508,500	\$ 6,529,338	\$ 19,037,838
Taxes receivable	724,109	-	724,109
Accounts receivable, net	269,848	3,841,178	4,111,026
Due from other governments	2,661,730	151,977	2,813,707
Cash and cash equivalents, restricted	18,625,958	3,557,889	22,183,847
Prepaid items	64,892	-	64,892
Total current assets	<u>34,855,037</u>	<u>14,080,382</u>	<u>48,935,419</u>
Non-current assets:			
Net pension asset	1,411,853	352,963	1,764,816
Intangible asset, net of amortization	-	1,784,214	1,784,214
Non-depreciable assets	36,281,325	17,472,750	53,754,075
Other capital assets, net of depreciation	<u>128,984,039</u>	<u>79,322,988</u>	<u>208,307,027</u>
Total non-current assets	<u>166,677,217</u>	<u>98,932,915</u>	<u>265,610,132</u>
Total assets	<u>201,532,254</u>	<u>113,013,297</u>	<u>314,545,551</u>
Deferred Outflows of Resources:			
Contributions to pension plan in current year	<u>897,078</u>	<u>224,270</u>	<u>1,121,348</u>
Liabilities:			
Current liabilities:			
Accounts payable	663,275	805,502	1,468,777
Accrued expenses	1,333,742	92,677	1,426,419
Accrued interest	940,698	392,791	1,333,489
Current compensated absences	661,667	104,768	766,435
Current maturities of long-term debt	3,813,709	3,124,768	6,938,477
Liabilities to be paid from restricted assets	<u>1,582,721</u>	<u>1,687,157</u>	<u>3,269,878</u>
Total current liabilities	<u>8,995,812</u>	<u>6,207,663</u>	<u>15,203,475</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Non-current liabilities:			
Non-current compensated absences	229,038	33,085	262,123
Other post-employment benefits obligation	9,860,690	2,600,386	12,461,076
Unfunded pension obligation	1,466,853	-	1,466,853
Long-term debt	64,272,394	35,223,158	99,495,552
Total non-current liabilities	<u>75,828,975</u>	<u>37,856,629</u>	<u>113,685,604</u>
Total liabilities	<u>84,824,787</u>	<u>44,064,292</u>	<u>128,889,079</u>
Deferred Inflows of Resources:			
Prepaid taxes	4,491	-	4,491
Pension deferrals	3,668,437	917,110	4,585,547
Total deferred inflows of resources	<u>3,672,928</u>	<u>917,110</u>	<u>4,590,038</u>
Net Position:			
Net investment in capital assets	109,954,984	61,843,243	171,798,227
Restricted - stabilization for State statute	2,750,262	-	2,750,262
Restricted - streets	258,657	-	258,657
Restricted - community development	798,138	-	798,138
Restricted - public works	46,615	-	46,615
Restricted - public safety	55,717	-	55,717
Unrestricted	67,244	6,412,922	6,480,166
Total net position	<u>\$ 113,931,617</u>	<u>\$ 68,256,165</u>	<u>\$ 182,187,782</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, 2015

	<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	\$ 5,439,679	\$ 62,290	\$ 768,542	\$ 1,520,035
Public safety	16,074,597	102,276	212,065	-
Public works	5,179,692	62,303	-	1,572,002
Community development	1,829,369	99,752	104,330	686,205
Parks and recreation	2,454,355	257,246	-	-
Interest on long-term debt	3,056,485	-	-	-
Total governmental activities	<u>34,034,177</u>	<u>583,867</u>	<u>1,084,937</u>	<u>3,778,242</u>
Business-Type Activities:				
Water and sewer	12,481,710	13,708,157	-	1,330,735
Stormwater	1,586,097	1,775,288	-	-
Environmental services	3,523,274	1,608,849	-	-
Total business-type activities	<u>17,591,081</u>	<u>17,092,294</u>	<u>-</u>	<u>1,330,735</u>
Total primary government	<u>\$ 51,625,258</u>	<u>\$ 17,676,161</u>	<u>\$ 1,084,937</u>	<u>\$ 5,108,977</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, 2015

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Functions/Programs			
Primary Government:			
Governmental Activities:			
General government	\$ (3,088,812)	\$ -	\$ (3,088,812)
Public safety	(15,760,256)	-	(15,760,256)
Public works	(3,545,387)	-	(3,545,387)
Community development	(939,082)	-	(939,082)
Parks and recreation	(2,197,109)	-	(2,197,109)
Interest on long-term debt	(3,056,485)	-	(3,056,485)
Total governmental activities	<u>(28,587,131)</u>	<u>-</u>	<u>(28,587,131)</u>
Business-Type Activities:			
Water and sewer	-	2,557,182	2,557,182
Stormwater	-	189,191	189,191
Environmental services	-	(1,914,425)	(1,914,425)
Total business-type activities	<u>-</u>	<u>831,948</u>	<u>831,948</u>
Total primary government	<u>(28,587,131)</u>	<u>831,948</u>	<u>(27,755,183)</u>
General Revenues:			
Taxes:			
Ad valorem taxes	21,585,893	-	21,585,893
Sales tax	7,341,438	-	7,341,438
Other taxes and licenses	945,966	-	945,966
Franchise tax	2,476,417	-	2,476,417
Unrestricted intergovernmental revenues	208,751	-	208,751
Investment earnings	192,526	19,507	212,033
Total general revenues not including transfers	<u>32,750,991</u>	<u>19,507</u>	<u>32,770,498</u>
Transfers	<u>(1,100,000)</u>	<u>1,100,000</u>	<u>-</u>
Total general revenues and transfers	<u>31,650,991</u>	<u>1,119,507</u>	<u>32,770,498</u>
Change in net position	<u>3,063,860</u>	<u>1,951,455</u>	<u>5,015,315</u>
Net Position:			
Beginning of year - July 1	113,092,820	66,860,976	179,953,796
Restatement	<u>(2,225,063)</u>	<u>(556,266)</u>	<u>(2,781,329)</u>
Beginning of year - July 1, as restated	<u>110,867,757</u>	<u>66,304,710</u>	<u>177,172,467</u>
End of year - June 30	<u>\$ 113,931,617</u>	<u>\$ 68,256,165</u>	<u>\$ 182,187,782</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015

	Major Funds		Nonmajor	Total
	General Fund	City Office/ Public Safety Building	Other Governmental Funds	
Assets:				
Cash and cash equivalents	\$ 12,010,876	\$ -	\$ 497,624	\$ 12,508,500
Taxes receivable	724,109	-	-	724,109
Accounts receivable	55,678	-	214,170	269,848
Due from other governments	1,977,319	430,567	253,844	2,661,730
Due from other funds	334,747	-	-	334,747
Cash and cash equivalents - restricted	5,339,540	12,775,723	510,695	18,625,958
Prepaid items	64,892	-	-	64,892
Total assets	<u>\$ 20,507,161</u>	<u>\$ 13,206,290</u>	<u>\$ 1,476,333</u>	<u>\$ 35,189,784</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ 506,012	\$ -	\$ 157,263	\$ 663,275
Accrued liabilities	1,333,742	-	-	1,333,742
Due to other funds	-	219,533	115,214	334,747
Liabilities to be paid from restricted assets	-	1,582,721	-	1,582,721
Total liabilities	<u>1,839,754</u>	<u>1,802,254</u>	<u>272,477</u>	<u>3,914,485</u>
Deferred Inflows of Resources:				
Prepaid taxes	4,491	-	-	4,491
Property taxes receivable	724,109	-	-	724,109
Other unavailable revenue	301,893	-	-	301,893
Total deferred inflows of resources	<u>1,030,493</u>	<u>-</u>	<u>-</u>	<u>1,030,493</u>
Fund Balances:				
Non-spendable:				
Prepaid items	64,892	-	-	64,892
Long-term receivable	-	-	214,170	214,170
Restricted:				
Stabilization for State statute	2,065,851	430,567	253,844	2,750,262
Restricted for community development	5,080,883	-	798,138	5,879,021
Restricted for public works	-	-	46,615	46,615
Restricted for streets	258,657	-	-	258,657
Restricted for public safety	55,717	12,775,723	-	12,831,440
Committed	-	-	76,290	76,290
Assigned	250,000	-	-	250,000
Unassigned	9,860,914	(1,802,254)	(185,201)	7,873,459
Total fund balances	<u>17,636,914</u>	<u>11,404,036</u>	<u>1,203,856</u>	<u>30,244,806</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 20,507,161</u>	<u>\$ 13,206,290</u>	<u>\$ 1,476,333</u>	<u>\$ 35,189,784</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015**

	Total Governmental Funds
	<u> </u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total fund balance - governmental funds	\$ 30,244,806
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	165,265,364
Net pension asset	1,411,853
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	897,078
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.	1,026,002
Pension related deferrals	(3,668,437)
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	(68,086,103)
Unfunded LEO	(1,466,853)
Other post-employment benefits	(9,860,690)
Accrued interest	(940,698)
Compensated absences	<u>(890,705)</u>
Net position of governmental activities	<u>\$ 113,931,617</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, 2015

	Major Funds		Nonmajor Funds	Total Governmental Funds
	General Fund	City Office/ Public Safety Building	Other Governmental Funds	
Revenues:				
Ad valorem taxes	\$ 21,727,646	\$ -	\$ -	\$ 21,727,646
Other taxes and licenses	8,096,783	-	190,621	8,287,404
Unrestricted intergovernmental	2,685,168	-	-	2,685,168
Restricted intergovernmental	2,990,716	-	985,132	3,975,848
Sales and services	594,398	-	-	594,398
Investment earnings	139,678	52,848	-	192,526
Miscellaneous	887,332	-	-	887,332
Total revenues	<u>37,121,721</u>	<u>52,848</u>	<u>1,175,753</u>	<u>38,350,322</u>
Expenditures:				
Current:				
General government	5,128,629	-	-	5,128,629
Public safety	15,309,590	-	-	15,309,590
Public works	4,021,975	-	-	4,021,975
Community development	825,063	-	1,004,306	1,829,369
Capital outlay	-	20,286,671	959,155	21,245,826
Parks and recreation	1,829,061	-	-	1,829,061
Debt service:				
Principal retirement	2,668,328	-	184,000	2,852,328
Interest and fees	2,814,097	-	-	2,814,097
Total expenditures	<u>32,596,743</u>	<u>20,286,671</u>	<u>2,147,461</u>	<u>55,030,875</u>
Revenues over (under) expenditures	<u>4,524,978</u>	<u>(20,233,823)</u>	<u>(971,708)</u>	<u>(16,680,553)</u>
Other Financing Sources (Uses):				
Transfers (out)	(1,993,018)	-	-	(1,993,018)
Transfers in	200,000	-	693,018	893,018
Premium on long-term debt	-	2,303,246	-	2,303,246
Issuance of long-term debt	770,046	25,220,000	-	25,990,046
Total other financing sources (uses)	<u>(1,022,972)</u>	<u>27,523,246</u>	<u>693,018</u>	<u>27,193,292</u>
Net change in fund balances	<u>3,502,006</u>	<u>7,289,423</u>	<u>(278,690)</u>	<u>10,512,739</u>
Fund Balances:				
Beginning of year - July 1	14,134,908	4,114,613	1,268,376	19,517,897
Prior period adjustment	-	-	214,170	214,170
Beginning of year - as restated	<u>14,134,908</u>	<u>4,114,613</u>	<u>1,482,546</u>	<u>19,732,067</u>
End of year - June 30	<u>\$ 17,636,914</u>	<u>\$ 11,404,036</u>	<u>\$ 1,203,856</u>	<u>\$ 30,244,806</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, 2015**

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)	\$ 10,512,739
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.	23,718,272
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(4,245,180)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	897,078
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(152,284)
Expenses related to accrued interest, compensated absences, Law Enforcement Officers' Separation Allowance, other post-employment benefits, and pension that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(2,256,114)
Governmental funds report the effect of bond premiums when the debt is first issued, whereas, these amounts are deferred and amortized in the Statement of Activities.	30,313
Proceeds from issuance of debt, and the related premium, 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.	(28,293,292)
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>2,852,328</u>
Total change in net position of governmental activities (Exhibit B)	<u>\$ 3,063,860</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, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/Under</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$ 20,986,315	\$ 20,986,315	\$ 21,727,646	\$ 741,331
Other taxes and licenses	7,024,500	7,280,702	8,096,783	816,081
Unrestricted intergovernmental	2,045,000	2,045,000	2,685,168	640,168
Restricted intergovernmental	2,924,503	2,924,503	2,990,716	66,213
Sales and services	605,838	605,838	594,398	(11,440)
Investment earnings	105,000	105,000	139,678	34,678
Miscellaneous	738,883	815,360	887,332	71,972
Total revenues	<u>34,430,039</u>	<u>34,762,718</u>	<u>37,121,721</u>	<u>2,359,003</u>
Expenditures:				
Current:				
General government	6,427,403	5,747,429	5,128,629	618,800
Public safety	13,985,134	15,969,407	15,309,590	659,817
Public works	3,871,462	4,333,498	4,021,975	311,523
Community development	759,345	849,145	825,063	24,082
Parks and recreation	1,731,669	1,952,721	1,829,061	123,660
Debt service:				
Principal retirement	2,788,481	2,672,315	2,668,328	3,987
Interest and fees	3,271,081	2,823,706	2,814,097	9,609
Total expenditures	<u>32,834,575</u>	<u>34,348,221</u>	<u>32,596,743</u>	<u>1,751,478</u>
Revenues over (under) expenditures	<u>1,595,464</u>	<u>414,497</u>	<u>4,524,978</u>	<u>4,110,481</u>
Other Financing Sources (Uses):				
Transfers in	-	200,000	200,000	-
Transfers (out)	(1,630,464)	(1,993,020)	(1,993,018)	2
Installment financing issued	-	770,046	770,046	-
Appropriated fund balance	35,000	608,477	-	(608,477)
Total other financing sources (uses)	<u>(1,595,464)</u>	<u>(414,497)</u>	<u>(1,022,972)</u>	<u>(608,475)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>3,502,006</u>	<u>\$ 3,502,006</u>
Fund Balance:				
Beginning of year - July 1			<u>14,134,908</u>	
End of year - June 30			<u>\$ 17,636,914</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, 2015

	Business-Type Activities			
	Major Enterprise Funds			Total Business-Type Activities
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	
Assets:				
Current assets:				
Cash and investments	\$ 5,365,762	\$ 669,945	\$ 493,631	\$ 6,529,338
Accounts receivable, net	3,475,549	186,843	178,786	3,841,178
Due from other governments	128,495	15,528	7,954	151,977
Cash and investments, restricted	3,557,889	-	-	3,557,889
Total current assets	12,527,695	872,316	680,371	14,080,382
Non-current assets:				
Net pension asset	264,722	79,417	8,824	352,963
Intangible asset, net of amortization	1,784,214	-	-	1,784,214
Capital assets:				
Non-depreciable assets	17,472,750	-	-	17,472,750
Other capital assets net of depreciation	73,978,878	5,344,110	-	79,322,988
Total capital assets	91,451,628	5,344,110	-	96,795,738
Total non-current assets	93,500,564	5,423,527	8,824	98,932,915
Total assets	106,028,259	6,295,843	689,195	113,013,297
Deferred Outflows of Resources:				
Contributions to pension plan	168,202	50,461	5,607	224,270
Liabilities:				
Current liabilities:				
Accounts payable	500,048	24,600	280,854	805,502
Accrued expenses	72,349	18,533	1,795	92,677
Accrued interest	381,585	11,206	-	392,791
Current portion of compensated absences	85,722	19,046	-	104,768
Current maturities of long-term debt	2,340,960	610,295	173,513	3,124,768
Liabilities to be paid from restricted assets	1,687,157	-	-	1,687,157
Total current liabilities	5,067,821	683,680	456,162	6,207,663
Non-current liabilities:				
Compensated absences	27,070	6,015	-	33,085
Other post-employment benefits obligation	2,003,404	571,754	25,228	2,600,386
Long-term debt	31,668,834	3,554,324	-	35,223,158
Total non-current liabilities	33,699,308	4,132,093	25,228	37,856,629
Total liabilities	38,767,129	4,815,773	481,390	44,064,292
Deferred Inflows of Resources:				
Pension deferrals	687,832	206,350	22,928	917,110
Net Position:				
Net investment in capital assets	60,663,752	1,179,491	-	61,843,243
Unrestricted	6,077,748	144,690	190,484	6,412,922
Total net position	\$ 66,741,500	\$ 1,324,181	\$ 190,484	\$ 68,256,165

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities			
	Major Enterprise Funds			Total Business-Type Activities
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	
Operating Revenues:				
Charges for services	\$ 12,814,150	\$ 1,775,288	\$ 1,599,561	\$ 16,188,999
Water and sewer taps	492,248	-	-	492,248
Other operating revenues	401,759	-	9,288	411,047
Total operating revenues	<u>13,708,157</u>	<u>1,775,288</u>	<u>1,608,849</u>	<u>17,092,294</u>
Operating Expenses:				
Administration	617,047	-	-	617,047
Distribution	2,390,462	-	-	2,390,462
Filter plant	2,054,937	-	-	2,054,937
General services	1,102,500	-	-	1,102,500
Sewage treatment	2,570,340	-	-	2,570,340
Stormwater	-	1,346,896	-	1,346,896
Environmental services	-	-	3,517,061	3,517,061
Depreciation and amortization	2,458,406	148,515	-	2,606,921
Total operating expenses	<u>11,193,692</u>	<u>1,495,411</u>	<u>3,517,061</u>	<u>16,206,164</u>
Operating income (loss)	<u>2,514,465</u>	<u>279,877</u>	<u>(1,908,212)</u>	<u>886,130</u>
Non-Operating Revenues (Expenses):				
Interest earned on investments	19,507	-	-	19,507
Interest and fees on long-term debt	(1,288,018)	(90,686)	(6,213)	(1,384,917)
Total non-operating revenues (expenses)	<u>(1,268,511)</u>	<u>(90,686)</u>	<u>(6,213)</u>	<u>(1,365,410)</u>
Income (loss) before capital contributions and transfers	<u>1,245,954</u>	<u>189,191</u>	<u>(1,914,425)</u>	<u>(479,280)</u>
Capital Contributions	<u>1,330,735</u>	<u>-</u>	<u>-</u>	<u>1,330,735</u>
Transfers:				
Transfers (out)	(1,048,177)	-	-	(1,048,177)
Transfers in	-	125,000	2,023,177	2,148,177
Total transfers	<u>(1,048,177)</u>	<u>125,000</u>	<u>2,023,177</u>	<u>1,100,000</u>
Change in net position	<u>1,528,512</u>	<u>314,191</u>	<u>108,752</u>	<u>1,951,455</u>
Net Position:				
Beginning of year - July 1	65,630,187	1,135,150	95,639	66,860,976
Restatement	(417,199)	(125,160)	(13,907)	(556,266)
Beginning of year - July 1, as restated	<u>65,212,988</u>	<u>1,009,990</u>	<u>81,732</u>	<u>66,304,710</u>
End of year - June 30	<u>\$ 66,741,500</u>	<u>\$ 1,324,181</u>	<u>\$ 190,484</u>	<u>\$ 68,256,165</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, 2015

	Business-Type Activities			
	Major Enterprise Funds			Total Business-Type Activities
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	
Cash Flows from Operating Activities:				
Cash received from customers	\$ 14,515,130	\$ 1,962,678	\$ 1,729,017	\$ 18,206,825
Cash paid for goods and services	(6,921,607)	(707,748)	(3,450,943)	(11,080,298)
Cash paid to employees	(2,322,809)	(592,926)	(61,386)	(2,977,121)
Net cash provided (used) by operating activities	<u>5,270,714</u>	<u>662,004</u>	<u>(1,783,312)</u>	<u>4,149,406</u>
Cash Flows from Non-Capital Financing Activities:				
Transfers (to) from other funds	(1,048,177)	125,000	2,023,177	1,100,000
Cash Flows from Capital and Related Financing Activities:				
Proceeds from issuance of long-term debt	-	218,593	-	218,593
Acquisition of capital assets and capital projects	(7,374,415)	(555,391)	-	(7,929,806)
Principal paid on long-term debt	(2,280,158)	(575,049)	(169,715)	(3,024,922)
Interest and fees paid on long-term debt	(1,314,183)	(91,436)	(6,213)	(1,411,832)
Net cash provided (used) by capital and related financing activities	<u>(10,968,756)</u>	<u>(1,003,283)</u>	<u>(175,928)</u>	<u>(12,147,967)</u>
Cash Flows from Investing Activities:				
Interest on investments	19,507	-	-	19,507
Net increase (decrease) in cash and cash equivalents	(6,726,712)	(216,279)	63,937	(6,879,054)
Cash and Cash Equivalents:				
Beginning of year - July 1	15,650,363	886,224	429,694	16,966,281
End of year - June 30	<u>\$ 8,923,651</u>	<u>\$ 669,945</u>	<u>\$ 493,631</u>	<u>\$ 10,087,227</u>
Reconciliation of Operating Income (Loss) to Provided (Used) By Operating Activities:				
Operating income (loss)	\$ 2,514,465	\$ 279,877	\$ (1,908,212)	\$ 886,130
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	2,458,406	148,515	-	2,606,921
Pension expense	5,910	1,773	198	7,881
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	770,662	187,390	120,167	1,078,219
(Increase) decrease in deferred outflows of resources for pensions	(168,202)	(50,461)	(5,607)	(224,270)
Increase (decrease) in accounts payable and accrued liabilities	(685,897)	(3,040)	2,607	(686,330)
Increase (decrease) in other post-employment benefits	339,058	97,950	7,535	444,543
Increase (decrease) in customer deposits	36,312	-	-	36,312
Net cash provided (used) by operating activities	<u>\$ 5,270,714</u>	<u>\$ 662,004</u>	<u>\$ (1,783,312)</u>	<u>\$ 4,149,406</u>
Summary of Non-Cash Activities:				
Capital asset contributions	<u>\$ 1,330,735</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,330,735</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, 2015**

	<u>Separation Pay Fund</u>
Assets:	
Cash and investments	\$ <u>29,093</u>
Liabilities:	
Accounts payable	<u>4,206</u>
Net Position:	
Assets held in trust for pension benefits and other purposes	\$ <u>24,887</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, 2015**

	<u>Separation Pay Fund</u>
Additions:	
Employer contributions	\$ <u>302,800</u>
Deductions:	
Separation pay	<u>303,793</u>
Change in net position	(993)
Net Position:	
Beginning of year - July 1	<u>25,880</u>
End of year - June 30	<u><u>\$ 24,887</u></u>

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

This page left blank intentionally.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 that 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. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as 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 result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

The City reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, 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.

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

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.

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.

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

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

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

Pine Street Assisted Living. This fund is used to account for the purchase of the Pine Street Assisted Living Facility with grant funds.

Oak Avenue Sidewalk. This fund is used to account for funds used for sidewalk improvements on Oak Avenue.

Little Texas Road Sidewalk. This fund is used to account for funds used for sidewalk improvements on Little Texas Road.

Glen Afton to Goodman Road Connection. This fund is used to account for funds used for the construction of a connector road between Glen Afton Road and Goodman Road.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 four separate water and sewer capital project funds for accounting purposes: Shiloh Church Road Extension Fund, Revenue Bonds 2014 Fund, Highway 73 (Exit 55) Water Line Fund, and Mooresville Road Water Main Fund. For financial reporting purposes, these funds have been consolidated into the Water and Sewer Fund.

Stormwater Fund. This fund is used to account for the City's stormwater operations. The City maintains the 8th Street Culvert Replacement Fund as a separate stormwater capital project fund for accounting purposes. For financial reporting purposes, this fund has 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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for the Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as 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 for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as beer and wine tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Sales taxes are considered a shared revenue for the City of Kannapolis because the tax is levied by the Counties and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the City funds certain

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

D. Budgetary Data

The City's budgets are adopted as required by 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 Fund 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 are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

In accordance with the State law, the City has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment, and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Restricted Assets

The unexpended debt proceeds of the Other Governmental Funds and Enterprise Funds for debt issued by the City, are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued. The required debt service reserve in the General Fund is classified as restricted assets because the cash is placed with an escrow agent in which the purpose can only be used to repay debt at maturity. 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 they 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.

General Fund:

Required debt service reserve	\$ 5,080,883
Powell Bill	<u>258,657</u>
Total	<u>5,339,540</u>

Other Governmental Funds:

Unspent debt proceeds restricted for capital outlay	12,775,723
HUD Section 108 - debt payment reserve	<u>510,695</u>
Total	<u>13,286,418</u>

Enterprise Funds:

Unspent debt proceeds restricted for capital outlay	3,221,918
Customer deposits	<u>335,971</u>
Total	<u>3,557,889</u>

Total restricted cash	<u>\$ 22,183,847</u>
-----------------------	----------------------

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th.

These taxes are based on the assessed values as of January 1, 2014. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date.

In the 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.

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. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 has one item that meets this criterion – contributions made to the pension plan in the 2015 fiscal year. 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 several items that meet the criterion for this category – prepaid taxes, other unavailable revenues, property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

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 the 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. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs 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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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, or laws or regulations of other governments or imposed by law through State statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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 intact.

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.

Long-term receivable – portion of fund balance that is not an available resource because it represents the amount not expected to be converted to cash during the subsequent fiscal year.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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 Community Development – portion of fund balance restricted by revenue source for community development activities. \$5,080,883 is restricted in the General Fund for unspent debt proceeds for capital outlay (TIF restrictions) and debt service reserve related to NCRC project. \$510,695 in the CDBG Fund is restricted for HUD Section 108 Loan. \$287,443 in the Transit Tax Fund is restricted by the revenue source for the development of a transit system for the City.

Restricted for Public Works – portion of fund balance that is restricted by revenue source for public works activities.

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. \$55,717 in the General Fund is restricted for federal and State asset forfeiture funds. \$12,775,723 in the City Office/Public Safety Building Fund is restricted for unspent bond proceeds for the purpose for which the debt was issued.

Restricted fund balance at June 30, 2015 is as follows:

<u>Purpose</u>	<u>General Fund</u>	<u>City Office/ Public Safety Building</u>	<u>Other Governmental Funds</u>
Restricted, All Other:			
Streets	\$ 258,657	\$ -	\$ -
Public safety	55,717	12,775,723	-
Community development	5,080,883	-	798,138
Public works	-	-	46,615
Total	<u>\$ 5,395,257</u>	<u>\$ 12,775,723</u>	<u>\$ 844,753</u>

Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C by the amount of unspent debt proceeds of \$17,856,606 as of June 30, 2015.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 Capital Projects – portion of fund balance committed by the City Council to be used for capital project expenditures related to the Oak Avenue Sidewalk and the Little Texas Road Sidewalk projects.

Committed fund balance at June 30, 2015 is as follows:

<u>Purpose</u>	<u>Other Governmental Funds</u>
Capital projects	\$ 76,290

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.

Subsequent Year's Expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The Council approves the appropriation.

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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

The City has adopted a minimum fund balance policy which states that available fund balances at the close of each fiscal year should be within a range of at least 25% and no more than 33% (13 to 17 weeks) of the Total Annual Operating Budget of the City. The City Council may, from time-to-time, appropriate fund balances that will reduce available fund balances below the 25% policy for the purposes of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the City of Kannapolis. In such circumstances, the Council will adopt a plan to restore the available fund balances to the policy level within 36 months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the City, then the Council will establish a different but appropriate time period.

In the event that available fund balances are in excess of 33%, then the City will develop a spending plan utilizing more cash payments for capital projects, or other capital assets.

Fund Balance Available for Appropriation

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	\$ 17,636,914
Less:	
Prepaid items	(64,892)
Stabilization by State statute	<u>(2,065,851)</u>
Fund balance available for appropriation	<u>\$ 15,506,171</u>

Pensions

For purposes of measuring the net pension asset, *Deferred Outflows of Resources* and *Deferred Inflows of Resources* related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City of Kannapolis' employer contributions are recognized when due and the City of Kannapolis has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

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. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2015, the City's deposits had a carrying amount of \$4,951,279 and a bank balance of \$3,943,395. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2015, the City's petty cash fund totaled \$3,170.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Investments

At June 30, 2015, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than One Year</u>	<u>5+ Years</u>
NC Capital Management Trust - Cash Portfolio	\$ 3,491,705	\$ 3,491,705	\$ -
NC Capital Management Trust - Term Portfolio	3,044,826	3,044,826	-
Government Agencies	999,810	-	999,810
Commercial Paper	25,179,146	25,179,146	-
Repurchase Agreements	3,580,842	3,580,842	-
Total	<u>\$ 36,296,329</u>	<u>\$ 35,296,519</u>	<u>\$ 999,810</u>

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. The portfolio will be structured so that securities mature concurrently with cash needs, with securities with an active secondary market, and with deposits and investments in highly liquid money market and mutual fund accounts.

Credit Risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). To best mitigate against credit risk, the City requires a diversification of investments. 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, 2015. The City's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments, as permitted under North Carolina General Statutes 159-30 as amended. The City's investments in U.S. government obligations are rated A1P1 by Moody's Investors Service.

Concentration of Credit Risk. The City places no limit on the amount that the City may invest in any one issuer. More than 5 percent of the City's investments are in commercial paper. This investment is 69% of the City's total investments.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Receivables

Receivables at the government-wide level at June 30, 2015 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 55,678	\$ 1,142,616	\$ 1,977,319	\$ 3,175,613
Governmental	<u>214,170</u>	<u>-</u>	<u>684,411</u>	<u>898,581</u>
Total receivables	269,848	1,142,616	2,661,730	4,074,194
Allowance for doubtful accounts	<u>-</u>	<u>(418,507)</u>	<u>-</u>	<u>(418,507)</u>
Total	<u>\$ 269,848</u>	<u>\$ 724,109</u>	<u>\$ 2,661,730</u>	<u>\$ 3,655,687</u>
Business-Type Activities:				
Water and sewer	\$ 4,305,998	\$ -	\$ 128,495	\$ 4,434,493
Stormwater	235,927	-	15,528	251,455
Environmental services	191,057	-	7,954	199,011
Allowance for doubtful accounts	<u>(891,804)</u>	<u>-</u>	<u>-</u>	<u>(891,804)</u>
Total	<u>\$ 3,841,178</u>	<u>\$ -</u>	<u>\$ 151,977</u>	<u>\$ 3,993,155</u>

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

Local option sales tax	\$ 1,219,798
Property taxes	353,594
Grants	461,080
Other	<u>779,235</u>
Total	<u>\$ 2,813,707</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Capital Assets

The following is a summary of changes in the governmental capital assets for the year ended June 30, 2015:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>
Non-Depreciable Capital Assets:				
Land	\$ 13,848,807	\$ 27,055	\$ -	\$ 13,875,862
Construction in progress	2,387,018	21,138,386	(1,119,941)	22,405,463
Total non-depreciable capital assets	<u>16,235,825</u>	<u>21,165,441</u>	<u>(1,119,941)</u>	<u>36,281,325</u>
Depreciable Capital Assets:				
Buildings and improvements	33,934,516	-	-	33,934,516
Other improvements	7,133,214	-	-	7,133,214
Machinery and equipment	15,618,972	1,519,950	(205,511)	16,933,411
Infrastructure	150,335,895	1,032,881	1,119,941	152,488,717
Total depreciable capital assets	<u>207,022,597</u>	<u>2,552,831</u>	<u>914,430</u>	<u>210,489,858</u>
Less Accumulated Depreciation:				
Building and improvements	3,170,803	738,055	-	3,908,858
Other improvements	1,083,651	155,900	-	1,239,551
Machinery and equipment	12,454,162	970,181	(205,511)	13,218,832
Infrastructure	60,757,534	2,381,044	-	63,138,578
Total accumulated depreciation	<u>77,466,150</u>	<u>4,245,180</u>	<u>(205,511)</u>	<u>81,505,819</u>
Total depreciable capital assets, net	<u>129,556,447</u>	<u>\$ (1,692,349)</u>	<u>\$ -</u>	<u>128,984,039</u>
Total capital assets, net	<u>\$ 145,792,272</u>			<u>\$ 165,265,364</u>

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

General government	\$ 419,218
Public safety	829,599
Public works	2,356,076
Parks and recreation	640,287
Total depreciation expense	<u>\$ 4,245,180</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

The following is a summary of changes in the business-type capital assets for the year ended June 30, 2015.

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance June 30, 2015</u>
Water and Sewer Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 730,342	\$ -	\$ -	\$ 730,342
Construction in progress	<u>9,977,727</u>	<u>6,910,795</u>	<u>(146,114)</u>	<u>16,742,408</u>
Total non-depreciable capital assets	<u>10,708,069</u>	<u>6,910,795</u>	<u>(146,114)</u>	<u>17,472,750</u>
Depreciable Capital Assets:				
Buildings	22,876,982	69,257	-	22,946,239
Distribution systems	86,770,842	1,474,592	146,114	88,391,548
Machinery and equipment	<u>2,282,529</u>	<u>250,506</u>	<u>-</u>	<u>2,533,035</u>
Total depreciable capital assets	<u>111,930,353</u>	<u>1,794,355</u>	<u>146,114</u>	<u>113,870,822</u>
Less Accumulated Depreciation:				
Buildings	7,874,402	545,684	-	8,420,086
Distribution systems	27,746,195	1,795,470	-	29,541,665
Machinery and equipment	<u>1,861,163</u>	<u>69,030</u>	<u>-</u>	<u>1,930,193</u>
Total accumulated depreciation	<u>37,481,760</u>	<u>\$ 2,410,184</u>	<u>\$ -</u>	<u>39,891,944</u>
Total depreciable capital assets, net	<u>74,448,593</u>			<u>73,978,878</u>
Total Water and Sewer Fund capital assets, net	<u>85,156,662</u>			<u>91,451,628</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance June 30, 2015</u>
Stormwater Fund:				
Non-Depreciable Capital Assets:				
Construction in progress	834,056	\$ 335,688	\$ (1,169,744)	-
Depreciable Capital Assets:				
Machinery and equipment	717,199	219,703	-	936,902
Infrastructure	6,296,183	-	1,169,744	7,465,927
Total depreciable capital assets	<u>7,013,382</u>	<u>219,703</u>	<u>1,169,744</u>	<u>8,402,829</u>
Less Accumulated Depreciation:				
Machinery and equipment	488,041	95,560	-	583,601
Infrastructure	2,422,163	52,955	-	2,475,118
Total accumulated depreciation	<u>2,910,204</u>	<u>\$ 148,515</u>	<u>\$ -</u>	<u>3,058,719</u>
Total depreciable capital assets, net	<u>4,103,178</u>			<u>5,344,110</u>
Total Stormwater Fund capital assets, net	<u>4,937,234</u>			<u>5,344,110</u>
Total business-type capital assets, net	<u>\$ 90,093,896</u>			<u>\$ 96,795,738</u>

Proprietary Intangible Assets

The intangible assets of the Water and Sewer Fund at June 30, 2015 were as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2015</u>
Intangible Assets:				
Rowan County water rights	\$ 2,411,100	\$ -	\$ -	\$ 2,411,100
Less accumulated amortization	(578,664)	(48,222)	-	(626,886)
Intangible assets, net	<u>\$ 1,832,436</u>	<u>\$ (48,222)</u>	<u>\$ -</u>	<u>\$ 1,784,214</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Construction Commitments

The City has active construction projects as of June 30, 2015. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>	<u>Total Contract</u>
City office/public safety building	\$ 19,865,394	\$ 7,509,016	\$ 27,374,410
Water and sewer bond projects	7,032,367	517,684	7,550,051

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2015 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>IBNR</u>	<u>Total</u>
Governmental Activities:				
General	\$ 93,875	\$ 1,333,742	\$ 412,137	\$ 1,839,754
Other governmental	157,263	-	-	157,263
Total payables	<u>\$ 251,138</u>	<u>\$ 1,333,742</u>	<u>\$ 412,137</u>	<u>\$ 1,997,017</u>
Business-Type Activities:				
Water and sewer	\$ 500,048	\$ 72,349	\$ -	\$ 572,397
Stormwater	24,600	18,533	-	43,133
Environmental services	280,854	1,795	-	282,649
Total payables	<u>\$ 805,502</u>	<u>\$ 92,677</u>	<u>\$ -</u>	<u>\$ 898,179</u>

Pension Plan and Post-Employment Obligations

Local Governmental Employees' Retirement System

Plan Description. The City of Kannapolis is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Kannapolis employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Kannapolis' contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters,

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Kannapolis were \$1,121,348 for the year ended June 30, 2015.

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

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

At June 30, 2015, the City reported an asset of \$1,764,816 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The City’s proportion of the net pension asset was based on a projection of the City’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the City’s proportion was 0.00299%, which was a decrease of 0.00014% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$39,402. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 192,837
Net difference between projected and actual earnings on pension plan investments	-	4,108,451
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	284,259
Employer contributions subsequent to the measurement date	1,121,348	-
Total	\$ 1,121,348	\$ 4,585,547

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

\$1,121,348 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2016	\$ (1,146,686)
2017	(1,146,686)
2018	(1,146,686)
2019	(1,145,489)
Total	<u>\$ (4,585,547)</u>

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	<u>4.5%</u>	3.7%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8%, and Inflation Protection 3.4%.

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

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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

	1% Decrease	Discount Rate	1% Increase
	(6.25%)	(7.25%)	(8.25%)
City's proportionate share of the net pension liability (asset)	<u>\$ 5,990,547</u>	<u>\$ (1,764,815)</u>	<u>\$ (8,294,581)</u>

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

Law Enforcement Officers' Special Separation Allowance

Plan Description. The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified full-time employees. The Separation Allowance is equal to 0.85% 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. For reporting purposes, the Separation Allowance is reported in the City's report as a Pension Trust Fund; however, it does not meet the criteria for trust funds outlined in GASB Statement 68. 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, 2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	19
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	308
Total	327

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 and refunds are recognized when due and payable in accordance with the terms of the plan.

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

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

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 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 \$302,800, 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, 2013 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, ranging from 4.25% to 8.55% per year for firefighters, and 4.25% to 7.75% per year 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 remaining amortization period at December 31, 2013 was 17 years.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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	\$	530,973
Interest on net pension obligation		64,145
Adjustment to annual required contribution		<u>(108,374)</u>
Annual pension cost		486,744
Employer contributions made		
for fiscal year ended June 30, 2015		<u>302,800</u>
Increase (decrease) in net pension obligation		183,944
Net pension obligation:		
Beginning of year - July 1		<u>1,282,909</u>
End of year - June 30	\$	<u><u>1,466,853</u></u>

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2013	\$ 383,651	70.38%	\$ 1,093,750
2014	471,159	59.85%	1,282,909
2015	486,744	62.21%	1,466,853

Funded Status and Funding Progress

As of December 31, 2014, the most recent actuarial valuation date, the plan was 0.76% funded. The actuarial accrued liability for benefits was \$4,125,324, and the actuarial value of assets was \$31,500, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,093,824. The covered payroll (annual payroll of active employees covered by the plan) was \$14,025,038, and the ratio of the UAAL to the covered payroll was 29.19 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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

(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, 2015 were \$330,628, which consisted of \$197,151 from the City and \$133,477 from the law enforcement officers.

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 that 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, 2015, the City contributed \$7,724 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 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. A separate report was not issued for the plan.

<u>Years of Service with City at Retirement</u>	<u>City Contribution</u>
20 or more	75%
10 to 19	50%
5 to 9	0%

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Membership of the Plan consisted of the following at December 31, 2014, the date of the latest actuarial valuation:

	General	Law	
	Employees	Enforcement	Firefighters
	<u> </u>	<u> </u>	<u> </u>
Retirees and dependents receiving benefits	66	-	-
Terminated plan members entitled to, but not yet receiving, benefits	-	-	-
Active plan members	143	79	85
Total	<u>209</u>	<u>79</u>	<u>85</u>

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. Benefits under the plan can be amended by City Council.

The current ARC rate is 21% of annual covered payroll. For the current year, the City contributed \$668,484, or 5% of annual covered payroll. Retirees pay 100%, 50%, or 25% of the premiums, based on their creditable years of retirement service. Employee health coverage is self-insured and administered through a third-party insurer. The City's obligation to contribute to the plan is established and may be amended by the City Council.

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.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Annual OPEB Cost and Net OPEB Obligation. The City’s annual OPEB cost (expense) is calculated based on the 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. 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	\$ 2,872,895
Interest on net OPEB obligation	409,535
Adjustments to annual required contribution	<u>(391,233)</u>
Annual OPEB cost (expense)	2,891,197
Contributions made	<u>(668,484)</u>
Increase (decrease) in net OPEB obligation	2,222,713
Net OPEB obligation:	
Beginning of year - July 1	<u>10,238,363</u>
End of year - June 30	<u>\$ 12,461,076</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2015 were as follows:

3 Year Trend Information			
Year Ended	Annual	Percentage of	Net
June 30	OPEB	Annual OPEB	OPEB
	Cost	Cost Contributed	Obligation
2013	\$ 2,798,298	10.9%	\$ 7,574,096
2014	2,802,757	4.9%	10,238,363
2015	2,891,197	23.1%	12,461,076

Funding Status and Funding Progress. As of December 31, 2014, 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 \$33,060,656. The covered payroll (annual payroll of active employees covered by the plan) was \$13,968,728, and the ratio of the UAAL to the covered payroll was 236.7 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and 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, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.50 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term, volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level of percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014 was 30 years.

As of June 30, 2015, 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 may not exceed \$50,000 and be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. 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. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The City considers these contributions to be immaterial.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Deferred Outflows and Inflows of Resources

Deferred outflows of resources at year-end are comprised of the following:

Contributions to pension plan in current fiscal year	<u>\$ 1,121,348</u>
---	---------------------

Deferred inflows of resources at year-end are comprised of the following:

Prepaid taxes (General Fund)	\$ 4,491
Taxes receivable, net (General Fund)	724,109
Cabarrus County contribution - fire station (General Fund)	301,893
Pension deferrals	4,585,547

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

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Current</u> <u>Portion</u>
Notes payable	\$ 10,163,452	\$ 770,046	\$ 1,083,328	\$ 9,850,170	\$ 1,227,486
U.S. government obligations	827,000	-	184,000	643,000	190,000
Limited obligation bonds	31,685,000	25,220,000	1,585,000	55,320,000	2,275,000
Premium on debt issuance	-	2,303,246	30,313	2,272,933	121,223
Net pension liability (LGERS)	3,019,246	-	3,019,246	-	-
Compensated absences	870,615	578,552	558,462	890,705	661,667
Other post-employment benefits	8,082,520	2,312,957	534,787	9,860,690	-
Net pension obligation (LEO)	<u>1,282,909</u>	<u>486,744</u>	<u>302,800</u>	<u>1,466,853</u>	<u>-</u>
Total	<u>\$ 55,930,742</u>	<u>\$ 31,671,545</u>	<u>\$ 7,297,936</u>	<u>\$ 80,304,351</u>	<u>\$ 4,475,376</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Total debt used in the calculation of net investment in capital assets for governmental activities is reduced by unexpended debt proceeds of \$12,775,723.

The LGERS plan had a net pension asset as of June 30, 2015; however, the plan had a net pension liability at the beginning of the fiscal year.

Governmental Activities – Notes Payable

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.	\$ 711,885
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	1,299,348
2.0% note, payable in semi-annual installments of \$26,133, excluding interest beginning October 2012 through June 2021; secured by park building	313,600
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	3,880,291
0% note, payable to County in annual installments of \$62,500, beginning April 2014 through April 2061, secured by the stadium	2,875,000
1.24% note, payable in quarterly installments of \$39,794, including interest beginning July 5, 2015 through April 5, 2020; secured by the equipment purchased with proceeds and any related additions, accessions, repairs, replacements, substitutions, and modifications.	<u>770,046</u>
Total	<u>\$ 9,850,170</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, 2015

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.

Date Issued	Interest Rate	Maturity Date	Annual Payments		Balance June 30, 2015	
			General Fund	Enterprise Fund	General Fund	Enterprise Fund
Feb 2010	3.17%	Feb 2017	\$ 142,761	\$ -	\$ 248,195	\$ -
June 2011	2.22%	June 2016	-	173,514	-	173,514
June 2011	4.05%	June 2025	42,154	17,562	463,690	1,034,984
Total			<u>\$ 184,915</u>	<u>\$ 191,076</u>	<u>\$ 711,885</u>	<u>\$ 1,208,498</u>

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 1,227,486	\$ 139,575	\$ 1,367,061
2017	1,173,385	114,817	1,288,202
2018	1,063,408	93,717	1,157,125
2019	1,055,317	74,007	1,129,324
2020	1,036,569	54,526	1,091,095
2021 - 2025	2,001,851	79,067	2,080,918
2026 - 2030	354,654	1,067	355,721
2031 - 2035	312,500	-	312,500
2036 - 2040	312,500	-	312,500
2041 - 2045	312,500	-	312,500
2046 - 2050	312,500	-	312,500
2051 - 2055	312,500	-	312,500
2056 - 2060	312,500	-	312,500
2061	62,500	-	62,500
Total	<u>\$ 9,850,170</u>	<u>\$ 556,776</u>	<u>\$ 10,406,946</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 \$140,000 was due August 2015. Principal payments increase in \$5,000 increments yearly until the last year of the loan, fiscal year 2017, when the balance is due. Interest is due semi-annually at rates from 5.49% to 5.29% on February 1 and August 1, respectively. This obligation is to be used in the construction of Gateway Business Park. The principal balance due at June 30, 2015 was \$293,000.

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 \$50,000 was due August 2015. Principal payments are \$49,000 until August 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, respectively. This obligation is to be used in the construction of Gateway Business Park. The principal balance due at June 30, 2015 was \$350,000.

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

Year Ending				
June 30	Principal	Interest	Total	
2016	\$ 190,000	\$ 19,950	\$ 209,950	
2017	203,000	15,815	218,815	
2018	50,000	12,280	62,280	
2019	50,000	9,610	59,610	
2020	50,000	6,903	56,903	
2021 - 2022	100,000	5,555	105,555	
Total	<u>\$ 643,000</u>	<u>\$ 70,113</u>	<u>\$ 713,113</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. 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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 construction of various infrastructure projects. These projects include Veteran's Park, street, sidewalk, 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 issued Series 2014 Limited Obligation Bonds in August 2014. The City's limited obligation bonds are serviced by a governmental Capital Project Fund. The City will use the funds to construct a three story City Hall and Police Headquarters. The building will be over 100,000 square feet.

The City's limited obligation bonds payable at June 30, 2015 are comprised of the following individual issues:

- Series 2010A Limited Obligation Bonds, \$10,790,000
- Series 2010B Limited Obligation Bonds, \$19,310,000
- Series 2014 Limited Obligation Bonds, \$25,220,000

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.

\$ 30,100,000

\$25,220,000 Series 2014 Limited Obligation Bonds, issued in August 2014, due in annual installments ranging from \$620,000 to \$1,370,000 on April 1, through 2034. Interest is payable semi-annually at rates ranging from 3% to 5%, fluctuating throughout the life of the bonds.

25,220,000

Total

\$ 55,320,000

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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
2016	\$ 2,275,000	\$ 3,004,324	\$ 5,279,324
2017	3,105,000	2,902,974	6,007,974
2018	3,195,000	2,761,424	5,956,424
2019	3,285,000	2,615,374	5,900,374
2020	5,030,000	2,464,824	7,494,824
2021 - 2025	18,665,000	8,753,911	27,418,911
2026 - 2030	14,305,000	2,401,827	16,706,827
2021 - 2034	<u>5,460,000</u>	<u>848,884</u>	<u>6,308,884</u>
Total	<u>\$ 55,320,000</u>	<u>\$ 25,753,542</u>	<u>\$ 81,073,542</u>

With the Series 2014 Limited Obligation Bonds, a premium of \$2,303,246 will be amortized over the life of the bonds as follows. In the current year, \$30,313 of amortization expense was recognized.

Year Ending June 30	Principal
2016	\$ 121,223
2017	121,223
2018	121,223
2019	121,223
2020	121,223
2021 - 2025	606,115
2026 - 2030	606,115
2021 - 2034	<u>454,588</u>
Total	<u>\$ 2,272,933</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Changes in Long-Term Debt - Business-Type Activities:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2015</u>	<u>Current Maturities</u>
Water and Sewer Fund:					
Revenue bonds	\$ 33,224,348	\$ -	\$ 1,899,189	\$ 31,325,159	\$ 1,959,530
Notes payable	3,065,604	-	380,969	2,684,635	381,430
Net pension liability (LGERS)	566,109	-	566,109	-	-
Other post-employment benefits	1,664,346	441,030	101,972	2,003,404	-
Compensated absences	111,383	85,208	83,799	112,792	85,722
Total	<u>38,631,790</u>	<u>526,238</u>	<u>3,032,038</u>	<u>36,125,990</u>	<u>2,426,682</u>
Stormwater Fund:					
Notes payable	4,521,075	218,593	575,049	4,164,619	610,295
Net pension liability (LGERS)	169,832	-	169,832	-	-
Other post-employment benefits	473,804	127,409	29,459	571,754	-
Compensated absences	22,068	36,355	33,362	25,061	19,046
Total	<u>5,186,779</u>	<u>382,357</u>	<u>807,702</u>	<u>4,761,434</u>	<u>629,341</u>
Environmental Services Fund:					
Notes payable	343,228	-	169,715	173,513	173,513
Net pension liability (LGERS)	18,870	-	18,870	-	-
Other post-employment benefits	17,693	9,801	2,266	25,228	-
Total	<u>379,791</u>	<u>9,801</u>	<u>190,851</u>	<u>198,741</u>	<u>173,513</u>
Business-Type Activities:					
Revenue bonds	33,224,348	-	1,899,189	31,325,159	1,959,530
Notes payable	7,929,907	218,593	1,125,733	7,022,767	1,165,238
Net pension liability (LGERS)	754,811	-	754,811	-	-
Other post-employment benefits	2,155,843	578,240	133,697	2,600,386	-
Compensated absences	133,451	121,563	117,161	137,853	104,768
Total	<u>\$ 44,198,360</u>	<u>\$ 918,396</u>	<u>\$ 4,030,591</u>	<u>\$ 41,086,165</u>	<u>\$ 3,229,536</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Total debt used in the calculation of the net investment in capital assets, for business-type activities is reduced by unexpended debt proceeds of \$3,221,918 for the Water and Sewer Fund.

At June 30, 2015, the City had no authorized, but unissued, debt and a legal debt margin of \$211,627,320.

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, the Combined Enterprise System Revenue Bonds, Series 2001A and 2001B are considered defeased, and the respective liabilities for those bonds have been removed from the statement of net position. The advance refunding reduced the City's total debt service payments by \$3,042,227 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$2,488,000.

On October 3, 2013, the City issued \$18,245,000 in 2013 Revenue Bonds. The proceeds will be used to pay for four projects: Albemarle Water Line, Meter Exchange Project, Water Intake and Clear Well, and Irish Buffalo Creek Sewer Project.

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%	\$ 1,323,959
\$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%	12,226,200
\$18,245,000 Enterprise System Revenue Bonds, Series 2013, due annually in amounts ranging from \$470,000 to \$1,030,000 through April 2038; interest ranging from 3.00% to 4.75%	<u>17,775,000</u>
Total	<u>\$ 31,325,159</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,959,530	\$ 1,148,223	\$ 3,107,753
2017	2,032,301	1,082,225	3,114,526
2018	2,098,028	1,013,742	3,111,770
2019	1,691,300	947,559	2,638,859
2020	1,734,000	898,539	2,632,539
2021 - 2025	9,840,000	3,583,941	13,423,941
2026 - 2030	4,174,000	2,015,138	6,189,138
2030 - 2035	4,872,500	1,313,656	6,186,156
2036 - 2038	2,923,500	788,194	3,711,694
Total	<u>\$ 31,325,159</u>	<u>\$ 12,791,217</u>	<u>\$ 44,116,376</u>

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, Series 2011, and Series 2013 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, Series 2011, and Series 2013 revenue bonds is to be considered in the calculation of the debt service parity coverage ratio.

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

The debt service parity coverage ratio calculation for the year ended June 30, 2015 is as follows:

2016 budgeted revenues	\$	15,675,500
50% of surplus fund at June 30, 2015		592,638
2016 budgeted expenses *		<u>(9,307,800)</u>
Operating income	\$	<u>6,960,338</u>
Debt service on parity indebtedness	\$	3,729,304
Debt service on subordinate indebtedness		<u>468,766</u>
Total	\$	<u>4,198,070</u>
Debt service parity coverage ratio		<u>166%</u>
2016 budgeted revenues	\$	15,675,500
2016 budgeted expenses *		<u>(9,307,800)</u>
Operating income	\$	<u>6,367,700</u>
Debt service on parity indebtedness	\$	3,418,528
Debt service on subordinate indebtedness		<u>468,766</u>
Total	\$	<u>3,887,294</u>
Debt service parity coverage ratio		<u>164%</u>

* 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 \$39,969,300 in water and sewer system revenue bonds issued in 2002, 2011, and 2013. 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 2038. Annual principal and interest payments on the bonds are expected to require about 21 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$31,325,158. Principal and interest paid for in the current year and total customer net revenues were \$3,107,486 and \$13,708,157, respectively.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Business-Type Activities – Notes Payable:

2.22% note, payable in annual installments of \$86,800, due in May with interest payable semi-annually, beginning August 2011 through August 2016; secured by water and sewer distribution assets. Note was issued by the State Clean Water Program.	\$ 108,500
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	536,434
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	440,710
2.48% note, payable in annual installments of \$15,172 beginning May 2013 through May 2032 with interest payable semi-annually, beginning November 2012 through May 2032; secured by water pump station. The note was issued by NCDENR.	257,919
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	499,266
2.08% note, payable in semi-annual installments ranging from \$64,595 to \$77,490, including interest beginning September 2013 through March 2023; secured by street and stormwater improvements	1,024,652
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	2,728,195
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.	1,208,498
1.24% note, payable in quarterly installments of \$11,296, including interest beginning July 5, 2015 through April 5, 2020; secured by the equipment purchased with proceeds and any related additions, accessions, repairs, replacements, substitutions, and modifications.	<u>218,593</u>
Total	<u>\$ 7,022,767</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,165,238	\$ 171,938	\$ 1,337,176
2017	921,014	145,826	1,066,840
2018	892,621	123,713	1,016,334
2019	886,792	101,827	988,619
2020	872,300	80,076	952,376
2021 - 2025	2,055,532	146,591	2,202,123
2026 - 2027	229,270	9,210	238,480
Total	<u>\$ 7,022,767</u>	<u>\$ 779,181</u>	<u>\$ 7,801,948</u>

Operating Leases

The City is committed under operating leases for office space, equipment, and other facilities. For the year ended June 30, 2015, lease expenditures amounted to \$214,623. Going forward, the City will not have any operating leases because the City will own downtown and will be using the new City Hall.

3. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2015 consist of the following:

<u>Due To/From Fund</u>	<u>Receivable</u> <u>(Payable)</u> <u>Amount</u>	<u>Purpose</u>
General Fund	\$ 334,747	
Major governmental fund:		
Capital Projects - City Office/Public Safety Building	\$ (219,533)	Advance for capital projects
Nonmajor governmental funds:		
Capital Projects - Pine Street Assisted Living	(85,173)	Advance for capital projects
CDBG fund	(30,041)	Advance for grants
Total	<u>\$ (334,747)</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Interfund transfers for the fiscal year ended June 30, 2015 consist of the following:

	<u>From</u>	<u>To</u>	<u>Purpose</u>
General Fund	\$ 693,018	\$ -	
Nonmajor governmental funds:			
Transit Fund	-	330,464	Operating expenditures
Rogers Lake Road - RR Crossing	-	256,201	Capital expenditures
James Street Area Plan	-	53	Capital expenditures
Irish Buffalo Creek Greenway	-	15,500	Capital expenditures
Little Texas Road	-	51,000	Capital expenditures
Afton/Goodman Road Extension	-	39,800	Capital expenditures
Water and Sewer Fund	1,048,177	-	
Environmental Services Fund	-	723,177	Operating expenditures
Stormwater Fund	-	125,000	Operating expenditures
General Fund	-	200,000	Capital expenditures
General Fund	1,300,000	-	
Environmental Services Fund	-	1,300,000	Operating expenditures
Stormwater CPF - 8th Street Culvert	90,256	-	
Stormwater Fund	-	90,256	Close out projects
Total	<u>\$ 3,131,451</u>	<u>\$ 3,131,451</u>	

4. Jointly Governed Organizations

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 \$2,614,241 from WSACC for the year ended June 30, 2015.

5. 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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

6. 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.

The City's coverage is as follows:

Property	\$86,010,362 property, inland marine - equipment \$2,128,101; computer equipment/media, \$2,062,154; fine arts \$342,675; and portable equipment \$1,158,049
Impounded Auto	\$100,000 each accident
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; uni \$1,000,000
Workers' Compensation	Legal limits, \$500,000 retention
Employee Crime/Dishonesty	\$250,000 per occurrence
Employment 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 who 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 the Tax Collector are each individually bonded for \$50,000 and \$10,000, respectively. The remaining employees who 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).

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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

	<u>2015</u>	<u>2014</u>
Unpaid claims:		
Beginning of year - July 1	\$ 143,343	\$ 153,347
Incurred claims	2,049,859	2,172,159
Claim payments	<u>(2,076,651)</u>	<u>(2,182,163)</u>
End of year - June 30	<u>\$ 116,551</u>	<u>\$ 143,343</u>

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

	<u>2015</u>	<u>2014</u>
Unpaid claims:		
Beginning of year - July 1	\$ 201,143	\$ 61,554
Incurred claims	416,714	323,801
Claim payments	<u>(322,271)</u>	<u>(184,212)</u>
End of year - June 30	<u>\$ 295,586</u>	<u>\$ 201,143</u>

Claims typically have been liquidated in the General Fund.

7. Claims and Judgments

At June 30, 2015, 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.

8. 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.

9. Significant Effects of Subsequent Events

The City issued \$11,000,000 in special obligation bonds on August 31, 2015. The funds will be used to purchase the City's downtown as well as renovations for the area.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

10. Net Investment in Capital Assets

The City's net investment in capital assets at June 30, 2015 is calculated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net capital assets	\$ 165,265,364	\$ 96,795,738
Total debt, gross	68,086,103	38,174,413
Less:		
Unexpended proceeds	<u>12,775,723</u>	<u>3,221,918</u>
Total capital debt	<u>55,310,380</u>	<u>34,952,495</u>
Net investment in capital assets	<u>\$ 109,954,984</u>	<u>\$ 61,843,243</u>

11. Change in Accounting Principles

Restatement of Pension Liability

The City implemented Governmental Accounting Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27), in the fiscal year ending June 30, 2015. The implementation of the statement required the City to record beginning net pension liability and the effects on net position of contributions made by the City during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$2,225,063 and \$556,266, respectively.

Restatement of CDBG Loans Receivable

The City restated fund balance in the CDBG fund during the current year to adjust for long-term loans receivable that have previously been reported as deferred inflows of resources. The restatement increased fund balance for governmental activities by \$214,170.

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

Local Government Employees' Retirement System –

Schedule of Proportionate Share of
Net Pension Liability (Asset) and
Schedule of City Contributions

This page left blank intentionally.

CITY OF KANNAPOLIS, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit Method (b)		Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a) / c
12/31/2005	\$ 70,267	\$ 2,062,963	\$ 1,992,696	3.41%	\$ 9,506,341	20.96%	
12/31/2006	115,781	2,141,235	2,025,454	5.41%	9,612,783	21.07%	
12/31/2007	142,922	2,598,764	2,455,842	5.50%	10,015,403	24.52%	
12/31/2008	163,079	2,801,646	2,638,567	5.82%	11,668,966	22.61%	
12/31/2009	56,994	3,737,469	3,680,475	1.52%	12,177,773	30.22%	
12/31/2010	1,128	3,492,402	3,491,274	0.03%	11,939,634	29.24%	
12/31/2011	-	3,637,669	3,637,669	0.00%	12,285,668	29.61%	
12/31/2012	170,783	3,975,556	3,804,773	4.30%	13,411,478	28.37%	
12/31/2013	33,075	3,981,564	3,948,489	0.83%	13,224,784	29.86%	
12/31/2014	31,500	4,125,324	4,093,824	0.76%	14,025,038	29.19%	

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)		Amount Contributed by Employer	Percentage of ARC Contributed
2006	\$ 215,475	\$ 10,000	4.64%	
2007	210,830	180,000	85.38%	
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%	
2014	505,582	282,000	55.78%	
2015	530,973	302,800	57.03%	

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, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	16 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, 2015

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%
12/31/2014	-	33,060,656	33,060,656	0.00%	13,968,728	236.7%

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%
2014	2,789,218	5.0%
2015	2,872,895	23.3%

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	12/31/2014
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Amortization factor	26.1695
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rates:	
Pre-Medicare trend rate	7.50% - 5.00%
Post-Medicare trend rate	5.50% - 5.00%
Year of Ultimate trend rate	2020

* Includes inflation at 3.0%

CITY OF KANNAPOLIS, NORTH CAROLINA

**LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
 LAST TWO FISCAL YEARS***

	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability (asset) (%)	0.2992%	0.3131%
Proportion of the net pension liability (asset) (\$)	\$ (1,764,816)	\$ 3,774,057
Covered-employee payroll	\$ 13,923,927	\$ 12,535,436
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-12.67%	30.11%
Plan fiduciary net position as a percentage of the total pension liability**	102.64%	94.35%

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 CITY OF KANNAPOLIS' CONTRIBUTIONS
 LAST TWO FISCAL YEARS

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,121,348	\$ 992,728
Contributions in relation to the contractually required contribution	<u>1,121,348</u>	<u>992,728</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 15,658,317	\$ 13,923,927
Contributions as a percentage of covered-employee payroll	7.23%	7.04%

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.

This page left blank intentionally.

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, 2015

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Current year, net of refund	\$ 20,642,940	\$ 21,161,602	\$ 518,662
Prior year, net of refunds	343,375	566,044	222,669
Total	<u>20,986,315</u>	<u>21,727,646</u>	<u>741,331</u>
Other Taxes and Licenses:			
ABC mixed beverages	70,000	103,887	33,887
Vehicle licenses	306,000	381,243	75,243
Privilege licenses	84,000	264,912	180,912
Local option sales tax	6,816,202	7,341,438	525,236
Other taxes and licenses	4,500	5,303	803
Total	<u>7,280,702</u>	<u>8,096,783</u>	<u>816,081</u>
Unrestricted Intergovernmental:			
Franchise tax	1,850,000	2,476,417	626,417
Beer and wine	185,000	208,751	23,751
Food stamp reimbursement	10,000	-	(10,000)
Total	<u>2,045,000</u>	<u>2,685,168</u>	<u>640,168</u>
Restricted Intergovernmental:			
"State Street-Aid" allocation	1,265,000	1,273,076	8,076
Federal Emergency Management Agency	150,000	197,605	47,605
TIF contribution Cabarrus County	1,509,503	1,520,035	10,532
Total	<u>2,924,503</u>	<u>2,990,716</u>	<u>66,213</u>
Sales and Services:			
Public safety fees	102,838	112,808	9,970
Rents	98,000	62,289	(35,711)
Other fees	405,000	419,301	14,301
Total	<u>605,838</u>	<u>594,398</u>	<u>(11,440)</u>
Investment Earnings	<u>105,000</u>	<u>139,678</u>	<u>34,678</u>
Miscellaneous	<u>815,360</u>	<u>887,332</u>	<u>71,972</u>
Total revenues	<u>34,762,718</u>	<u>37,121,721</u>	<u>2,359,003</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, 2015**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits	78,940	72,936	6,004
Operating expenditures	<u>55,200</u>	<u>47,527</u>	<u>7,673</u>
Total	<u>134,140</u>	<u>120,463</u>	<u>13,677</u>
City Manager:			
Salaries and employee benefits	797,893	798,386	(493)
Operating expenditures	<u>1,334,299</u>	<u>1,192,369</u>	<u>141,930</u>
Total	<u>2,132,192</u>	<u>1,990,755</u>	<u>141,437</u>
Human Resources:			
Salaries and employee benefits	268,126	269,022	(896)
Operating expenditures	<u>137,055</u>	<u>103,815</u>	<u>33,240</u>
Total	<u>405,181</u>	<u>372,837</u>	<u>32,344</u>
Attorney:			
Salaries and employee benefits	229,005	222,331	6,674
Operating expenditures	<u>108,900</u>	<u>99,780</u>	<u>9,120</u>
Total	<u>337,905</u>	<u>322,111</u>	<u>15,794</u>
Finance:			
Salaries and employee benefits	569,488	554,490	14,998
Operating expenditures	<u>289,250</u>	<u>235,533</u>	<u>53,717</u>
Total	<u>858,738</u>	<u>790,023</u>	<u>68,715</u>
Information Technology:			
Contract services	346,600	350,492	(3,892)
Operating expenditures	238,024	198,531	39,493
Capital outlay	<u>255,691</u>	<u>183,016</u>	<u>72,675</u>
Total	<u>840,315</u>	<u>732,039</u>	<u>108,276</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, 2015**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
General Services:			
Salaries and employee benefits	9,500	14,985	(5,485)
Operating expenditures	351,235	322,689	28,546
Capital outlay	<u>10,000</u>	<u>6,190</u>	<u>3,810</u>
Total	<u>370,735</u>	<u>343,864</u>	<u>26,871</u>
Non-Departmental:			
Operating expenditures	<u>668,223</u>	<u>456,537</u>	<u>211,686</u>
Total general government	<u>5,747,429</u>	<u>5,128,629</u>	<u>618,800</u>
Public Safety:			
Police:			
Salaries and employee benefits	6,569,460	6,269,695	299,765
Operating expenditures	1,618,002	1,433,770	184,232
Capital outlay	<u>369,113</u>	<u>306,430</u>	<u>62,683</u>
Total	<u>8,556,575</u>	<u>8,009,895</u>	<u>546,680</u>
Fire:			
Salaries and employee benefits	5,711,391	5,614,985	96,406
Operating expenditures	1,053,020	1,039,893	13,127
Capital outlay	<u>648,421</u>	<u>644,817</u>	<u>3,604</u>
Total	<u>7,412,832</u>	<u>7,299,695</u>	<u>113,137</u>
Total public safety	<u>15,969,407</u>	<u>15,309,590</u>	<u>659,817</u>
Public Works:			
Engineering:			
Salaries and employee benefits	460,192	446,851	13,341
Operating expenditures	55,954	46,523	9,431
Capital outlay	120,238	-	120,238
Contract services	<u>705,921</u>	<u>677,498</u>	<u>28,423</u>
Total	<u>1,342,305</u>	<u>1,170,872</u>	<u>171,433</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, 2015**

	Final Budget	Actual	Variance Over/Under
Streets and Highways:			
Salaries and employee benefits	168,895	159,233	9,662
Operating expenditures	1,100,735	1,022,016	78,719
Total	<u>1,269,630</u>	<u>1,181,249</u>	<u>88,381</u>
Powell Bill:			
Salaries and employee benefits	373,205	357,074	16,131
Operating expenditures	1,002,430	966,853	35,577
Capital outlay	345,928	345,927	1
Total	<u>1,721,563</u>	<u>1,669,854</u>	<u>51,709</u>
Total public works	<u>4,333,498</u>	<u>4,021,975</u>	<u>311,523</u>
Community Development:			
Planning:			
Salaries and employee benefits	78,981	70,508	8,473
Operating expenditures	24,019	19,981	4,038
Contract services	558,170	558,170	-
Total	<u>661,170</u>	<u>648,659</u>	<u>12,511</u>
Code Enforcement:			
Contract services	<u>187,975</u>	<u>176,404</u>	<u>11,571</u>
Total community development	<u>849,145</u>	<u>825,063</u>	<u>24,082</u>
Parks and Recreation:			
Parks and recreation programs:			
Salaries and employee benefits	938,451	900,498	37,953
Operating expenditures	907,382	822,699	84,683
Capital outlay	61,505	60,624	881
Total	<u>1,907,338</u>	<u>1,783,821</u>	<u>123,517</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, 2015**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Stadium:			
Operating expenditures	45,383	45,240	143
Total parks and recreation	<u>1,952,721</u>	<u>1,829,061</u>	<u>123,660</u>
Debt Service:			
Principal retirement	2,672,315	2,668,328	3,987
Interest and fees	<u>2,823,706</u>	<u>2,814,097</u>	<u>9,609</u>
Total debt service	<u>5,496,021</u>	<u>5,482,425</u>	<u>13,596</u>
Total expenditures	<u>34,348,221</u>	<u>32,596,743</u>	<u>1,751,478</u>
Total revenues over (under) expenditures	<u>414,497</u>	<u>4,524,978</u>	<u>4,110,481</u>
Other Financing Sources (Uses):			
Long-term debt issued	770,046	770,046	-
Transfers in	200,000	200,000	-
Transfers out	(1,993,020)	(1,993,018)	2
Appropriated fund balance	<u>608,477</u>	<u>-</u>	<u>(608,477)</u>
Total other financing sources (uses)	<u>(414,497)</u>	<u>(1,022,972)</u>	<u>(608,475)</u>
Net change in fund balance	<u>\$ -</u>	<u>3,502,006</u>	<u>\$ 3,502,006</u>
Fund Balance:			
Beginning of year - July 1		<u>14,134,908</u>	
End of year - June 30		<u>\$ 17,636,914</u>	

This page left blank intentionally.

Major Capital Project Fund

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

This page left blank intentionally.

CITY OF KANNAPOLIS, NORTH CAROLINA

MAJOR 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, 2015

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Investment earnings	\$ -	\$ -	\$ 52,848	\$ 52,848
Contributions	6,491	6,491	-	6,491
Total revenues	<u>6,491</u>	<u>6,491</u>	<u>52,848</u>	<u>59,339</u>
Expenditures:				
Contracted services	5,015,227	1,817,579	1,375,521	3,193,100
Capital outlay	26,001,753	113,244	18,633,700	18,746,944
Debt service:				
Interest and fees	289,951	12,500	277,450	289,950
Total expenditures	<u>31,306,931</u>	<u>1,943,323</u>	<u>20,286,671</u>	<u>22,229,994</u>
Revenues over (under) expenditures	<u>(31,300,440)</u>	<u>(1,936,832)</u>	<u>(20,233,823)</u>	<u>(22,170,655)</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	22,945,749	-	25,220,000	25,220,000
Premium on long-term debt	2,303,246	-	2,303,246	2,303,246
Transfers in	6,051,445	6,051,445	-	6,051,445
Total other financing sources (uses)	<u>31,300,440</u>	<u>6,051,445</u>	<u>27,523,246</u>	<u>33,574,691</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 4,114,613</u>	<u>\$ 7,289,423</u>	<u>\$ 11,404,036</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015

	<i>Schedule C-1</i>	<i>Schedule D-1</i>	
	Special Revenue Funds	Capital Project Funds	Total
Assets:			
Cash and investments	\$ 374,148	\$ 123,476	\$ 497,624
Accounts receivable	214,170	-	214,170
Due from other governments	51,778	202,066	253,844
Cash and cash equivalents, restricted	<u>510,695</u>	<u>-</u>	<u>510,695</u>
 Total assets	 <u>\$ 1,150,791</u>	 <u>\$ 325,542</u>	 <u>\$ 1,476,333</u>
 Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 126,781	\$ 30,482	\$ 157,263
Due to other funds	<u>30,041</u>	<u>85,173</u>	<u>115,214</u>
Total liabilities	<u>156,822</u>	<u>115,655</u>	<u>272,477</u>
 Fund Balances:			
Non-spendable:			
Long-term receivable	214,170	-	214,170
Restricted:			
Stabilization for State statute	51,778	202,066	253,844
Restricted, all other	798,138	46,615	844,753
Committed	-	76,290	76,290
Unassigned	<u>(70,117)</u>	<u>(115,084)</u>	<u>(185,201)</u>
Total fund balances	<u>993,969</u>	<u>209,887</u>	<u>1,203,856</u>
 Total liabilities and fund balances	 <u>\$ 1,150,791</u>	 <u>\$ 325,542</u>	 <u>\$ 1,476,333</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, 2015**

	<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	\$ 190,621	\$ -	\$ 190,621
Restricted intergovernmental	<u>577,183</u>	<u>407,949</u>	<u>985,132</u>
Total revenues	<u>767,804</u>	<u>407,949</u>	<u>1,175,753</u>
Expenditures:			
Economic development	1,188,306	-	1,188,306
Departmental supplies	-	111	111
Contracted services	-	107,328	107,328
Capital outlay	<u>-</u>	<u>851,716</u>	<u>851,716</u>
Total expenditures	<u>1,188,306</u>	<u>959,155</u>	<u>2,147,461</u>
Revenues over (under) expenditures	<u>(420,502)</u>	<u>(551,206)</u>	<u>(971,708)</u>
Other Financing Sources (Uses):			
Transfers in	<u>330,464</u>	<u>362,554</u>	<u>693,018</u>
Net change in fund balances	<u>(90,038)</u>	<u>(188,652)</u>	<u>(278,690)</u>
Fund Balances:			
Beginning of year - July 1	869,837	398,539	1,268,376
Restatement	<u>214,170</u>	<u>-</u>	<u>214,170</u>
Beginning of year - July 1, as restated	<u>1,084,007</u>	<u>398,539</u>	<u>1,482,546</u>
End of year - June 30	<u>\$ 993,969</u>	<u>\$ 209,887</u>	<u>\$ 1,203,856</u>

This page left blank intentionally.

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.

This page left blank intentionally.

CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2015

	<u>Community Development Block Grant</u>	<u>Transit Tax Fund</u>	<u>Total</u>
Assets:			
Cash and investments	\$ -	\$ 374,148	\$ 374,148
Accounts receivable	214,170	-	214,170
Due from other governments	51,536	242	51,778
Restricted cash	<u>510,695</u>	<u>-</u>	<u>510,695</u>
Total assets	<u>\$ 776,401</u>	<u>\$ 374,390</u>	<u>\$ 1,150,791</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 40,076	\$ 86,705	\$ 126,781
Due to other funds	<u>30,041</u>	<u>-</u>	<u>30,041</u>
Total liabilities	<u>70,117</u>	<u>86,705</u>	<u>156,822</u>
Fund Balances:			
Non-spendable:			
Long-term receivable	214,170	-	214,170
Restricted:			
Stabilization for State statute	51,536	242	51,778
Restricted, all other	510,695	287,443	798,138
Unassigned	<u>(70,117)</u>	<u>-</u>	<u>(70,117)</u>
Total fund balances	<u>706,284</u>	<u>287,685</u>	<u>993,969</u>
Total liabilities and fund balances	<u>\$ 776,401</u>	<u>\$ 374,390</u>	<u>\$ 1,150,791</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, 2015**

	<u>Community Development Block Grant</u>	<u>Transit Tax Fund</u>	<u>Total</u>
Revenues:			
Other taxes and licenses	\$ -	\$ 190,621	\$ 190,621
Restricted intergovernmental	<u>577,183</u>	<u>-</u>	<u>577,183</u>
Total revenues	<u>577,183</u>	<u>190,621</u>	<u>767,804</u>
Expenditures:			
Current:			
Economic development	<u>727,516</u>	<u>460,790</u>	<u>1,188,306</u>
Revenues over (under) expenditures	(150,333)	(270,169)	(420,502)
Other Financing Sources (Uses):			
Transfers in (out)	<u>-</u>	<u>330,464</u>	<u>330,464</u>
Net change in fund balances	<u>(150,333)</u>	<u>60,295</u>	<u>(90,038)</u>
Fund Balances:			
Beginning of year - July 1	642,447	227,390	869,837
Restatement	<u>214,170</u>	<u>-</u>	<u>214,170</u>
Beginning of year - July 1, as restated	<u>856,617</u>	<u>227,390</u>	<u>1,084,007</u>
End of year - June 30	<u>\$ 706,284</u>	<u>\$ 287,685</u>	<u>\$ 993,969</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, 2015**

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Actual</u>	<u>Total To Date</u>
Revenues:				
CDBG 2006	\$ 2,139,282	\$ 2,139,282	\$ -	\$ 2,139,282
CDBG 2011	322,391	322,391	-	322,391
CDBG 2012	354,220	354,220	-	354,220
CDBG 2013	352,879	66,167	286,712	352,879
CDBG 2014	325,452	-	61,971	61,971
CDBG 2015	3,500	-	3,500	3,500
2011 HOME Program Grant	124,947	42,974	81,973	124,947
2012 HOME Program Grant	104,660	2,609	102,051	104,660
2013 HOME Program Grant	104,483	-	40,392	40,392
2014 HOME Program Grant	125,421	-	-	-
2011 Consortium HOME Program Income	96,834	96,834	-	96,834
2012 Consortium HOME Program Income	13,386	13,386	-	13,386
2013 Consortium HOME Program Income	98,209	98,209	-	98,209
2014 Consortium HOME Program Income	13,385	13,386	-	13,386
2015 Consortium HOME Program Income	-	-	13,969	13,969
Miscellaneous revenue	-	715	-	715
Total revenues	<u>4,179,049</u>	<u>3,150,173</u>	<u>590,568</u>	<u>3,740,741</u>
Expenditures:				
CDBG 2006:				
Section 108 loan payments	<u>2,139,282</u>	<u>1,144,294</u>	<u>138,621</u>	<u>1,282,915</u>
CDBG 2011:				
Administration	46,516	46,516	-	46,516
Public service	47,225	47,225	-	47,225
Section 108 loan payments	75,129	75,129	-	75,129
Urgent Repair Program	103,521	100,039	3,482	103,521
Demolition	<u>50,000</u>	<u>27,394</u>	<u>22,606</u>	<u>50,000</u>
Total	<u>322,391</u>	<u>296,303</u>	<u>26,088</u>	<u>322,391</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, 2015**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total To Date</u>
		<u>Prior Years</u>	<u>Actual</u>	
CDBG 2012:				
Administration	70,000	70,000	-	70,000
Park improvements	20,000	42	-	42
Public service	45,831	45,831	-	45,831
Section 108 loan payments	71,427	71,427	-	71,427
Urgent Repair Program	96,963	69,450	27,513	96,963
Demolition	50,000	8,750	15,785	24,535
Total	<u>354,221</u>	<u>265,500</u>	<u>43,298</u>	<u>308,798</u>
CDBG 2013:				
Administration	70,575	53,874	16,701	70,575
Park improvements	79,609	78,695	913	79,608
Public service	43,055	43,055	-	43,055
Section 108 loan payments	68,947	-	68,947	68,947
Urgent Repair Program	60,693	-	60,693	60,693
Demolition	30,000	-	(1,600)	(1,600)
Total	<u>352,879</u>	<u>175,624</u>	<u>145,654</u>	<u>321,278</u>
CDBG 2014:				
Administration	65,090	-	65,090	65,090
Park improvements	103,415	-	3,640	3,640
Public service	48,000	-	48,000	48,000
Section 108 loan payments	68,947	-	-	-
Urgent Repair Program	40,000	-	22,416	22,416
Total	<u>325,452</u>	<u>-</u>	<u>139,146</u>	<u>139,146</u>
CDBG 2015:				
Park improvements	<u>3,500</u>	<u>-</u>	<u>3,500</u>	<u>3,500</u>
2011 HOME Program Grant:				
Administration	15,372	8,547	6,825	15,372
Construction	50,000	50,000	-	50,000
Transitional housing	136,408	90,326	33,797	124,123
Downpayment assistance	20,000	-	5,000	5,000
Total	<u>221,780</u>	<u>148,873</u>	<u>45,622</u>	<u>194,495</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, 2015

	Project Authorization	Actual		Total To Date
		Prior Years	Actual	
2012 HOME Program Grant:				
Administration	5,924	3,270	2,654	5,924
Property purchase	6,226	6,226	-	6,226
Program rehabilitation	92,750	240	92,510	92,750
Downpayment assistance	13,146	13,146	-	13,146
Total	<u>118,046</u>	<u>22,882</u>	<u>95,164</u>	<u>118,046</u>
2013 HOME Program Grant:				
Administration	5,915	-	5,915	5,915
Property purchase	18,568	-	-	-
Program rehabilitation	60,000	6,222	53,778	60,000
Downpayment assistance	20,000	-	-	-
Total	<u>104,483</u>	<u>6,222</u>	<u>59,693</u>	<u>65,915</u>
2013 HOME Program Income:				
Administration	9,820	9,820	-	9,820
Program rehabilitation	88,389	88,389	-	88,389
Total	<u>98,209</u>	<u>98,209</u>	<u>-</u>	<u>98,209</u>
2014 HOME Program Grant:				
Administration	7,099	-	577	577
Program rehabilitation	118,322	-	16,767	16,767
Total	<u>125,421</u>	<u>-</u>	<u>17,344</u>	<u>17,344</u>
2014 HOME Program Income:				
Program rehabilitation	13,385	-	13,386	13,386
Total expenditures	<u>4,179,049</u>	<u>2,157,907</u>	<u>727,516</u>	<u>2,885,423</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 992,266</u>	(136,948)	<u>\$ 855,318</u>
Reconciliation from Budgetary Basis to				
Modified Accrual Basis:				
Current year loan repayments			<u>(13,385)</u>	
Net change in fund balance			<u>\$ (150,333)</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, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Other taxes and licenses:			
Vehicle license tax	\$ 163,000	\$ 190,621	\$ 27,621
Expenditures:			
Contracted services	470,926	460,790	10,136
Revenues over (under) expenditures	(307,926)	(270,169)	37,757
Other Financing Sources (Uses):			
Transfers in (out)	307,926	330,464	22,538
Net change in fund balance	<u>\$ -</u>	<u>\$ 60,295</u>	<u>\$ 60,295</u>

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 eight Capital Project Funds.

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.

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

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

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

Pine Street Assisted Living - This fund is used to account for the acquisition of property on Pine Street to facilitate relocation of a flood-prone assisted living facility.

Oak Avenue Sidewalk - This fund is used to account for funds used for sidewalk improvements on Oak Avenue.

Little Texas Road Sidewalk - This fund is used to account for funds used for sidewalk improvements on Little Texas Road.

Glen Afton to Goodman Road Connection - This fund is used to account for funds used for the construction of a connector road between Glen Afton Road and Goodman Road.

This page left blank intentionally.

CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2015

	James Street Area Plan	Irish Buffalo Creek Greenway	Dale Earnhardt Blvd Sidewalk	Rogers Lake Road - RR Crossing Improvement	Pine Street Assisted Living	Oak Avenue Sidewalk	Little Texas Road Sidewalk	Glen Afton to Goodman Road Connection	Total
Assets:									
Cash and investments	\$ -	\$ 46,615	\$ -	\$ -	\$ -	\$ 25,290	\$ 51,000	\$ 571	\$ 123,476
Due from other governments	-	-	-	-	109,023	51,768	-	41,275	202,066
Total assets	\$ -	\$ 46,615	\$ -	\$ -	\$ 109,023	\$ 77,058	\$ 51,000	\$ 41,846	\$ 325,542
Liabilities and Fund Balances:									
Liabilities:									
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 23,850	\$ -	\$ -	\$ 6,632	\$ 30,482
Due to other funds	-	-	-	-	85,173	-	-	-	85,173
Total liabilities	-	-	-	-	109,023	-	-	6,632	115,655
Fund Balances:									
Restricted:									
Stabilization for State statute	-	-	-	-	109,023	51,768	-	41,275	202,066
Restricted, all other	-	46,615	-	-	-	-	-	-	46,615
Committed	-	-	-	-	-	25,290	51,000	-	76,290
Unassigned	-	-	-	-	(109,023)	-	-	(6,061)	(115,084)
Total fund balances	-	46,615	-	-	-	77,058	51,000	35,214	209,887
Total liabilities and fund balances	\$ -	\$ 46,615	\$ -	\$ -	\$ 109,023	\$ 77,058	\$ 51,000	\$ 41,846	\$ 325,542

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, 2015**

	James Street Area Plan	Irish Buffalo Creek Greenway	Dale Earnhardt Blvd Sidewalk	Rogers Lake Road - RR Crossing Improvement	Pine Street Assisted Living	Oak Avenue Sidewalk	Little Texas Road Sidewalk	Glen Afton to Goodman Road Connection	Total
Revenues:									
Restricted intergovernmental	\$ -	\$ -	\$ 205,883	\$ -	\$ 109,023	\$ 51,768	\$ -	\$ 41,275	\$ 407,949
Expenditures:									
Current:									
Departmental supplies	111	-	-	-	-	-	-	-	111
Contracted services	-	-	-	-	107,328	-	-	-	107,328
Capital outlay	-	-	481,632	259,513	-	64,710	-	45,861	851,716
Total expenditures	111	-	481,632	259,513	107,328	64,710	-	45,861	959,155
Revenues over (under) expenditures	(111)	-	(275,749)	(259,513)	1,695	(12,942)	-	(4,586)	(551,206)
Other Financing Sources (Uses):									
Transfers in	53	15,500	-	256,201	-	-	51,000	39,800	362,554
Net change in fund balances	(58)	15,500	(275,749)	(3,312)	1,695	(12,942)	51,000	35,214	(188,652)
Fund Balances:									
Beginning of year - July 1	58	31,115	275,749	3,312	(1,695)	90,000	-	-	398,539
End of year - June 30	\$ -	\$ 46,615	\$ -	\$ -	\$ -	\$ 77,058	\$ 51,000	\$ 35,214	\$ 209,887

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, 2015

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Contributions	\$ 35,000	\$ 35,000	\$ -	\$ 35,000
Expenditures:				
Contracted services	250	250	-	250
Departmental supplies	<u>55,668</u>	<u>55,556</u>	<u>111</u>	<u>55,667</u>
Total expenditures	<u>55,918</u>	<u>55,806</u>	<u>111</u>	<u>55,917</u>
Revenues over (under) expenditures	<u>(20,918)</u>	<u>(20,806)</u>	<u>(111)</u>	<u>(20,917)</u>
Other Financing Sources (Uses):				
Transfers in	<u>20,918</u>	<u>20,864</u>	<u>53</u>	<u>20,917</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 58</u>	<u>\$ (58)</u>	<u>\$ -</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, 2015

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Revenues:				
Proceeds from grants	\$ 1,672,000	\$ -	\$ -	\$ -
Contributions	129,024	96,014	-	96,014
Total revenues	<u>1,801,024</u>	<u>96,014</u>	<u>-</u>	<u>96,014</u>
Expenditures:				
Capital outlay	1,945,476	-	-	-
Contract engineering	144,524	64,899	-	64,899
Total expenditures	<u>2,090,000</u>	<u>64,899</u>	<u>-</u>	<u>64,899</u>
Revenues over (under) expenditures	<u>(288,976)</u>	<u>31,115</u>	<u>-</u>	<u>31,115</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	273,476	-	-	-
Transfers in	15,500	-	15,500	15,500
Total other financing sources (uses)	<u>288,976</u>	<u>-</u>	<u>15,500</u>	<u>15,500</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 31,115</u>	<u>\$ 15,500</u>	<u>\$ 46,615</u>

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, 2015**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Proceeds from grants	\$ 303,571	\$ 97,687	\$ 205,883	\$ 303,570
Expenditures:				
Capital outlay	600,521	118,889	481,632	600,521
Salaries and benefits	3,220	3,219	-	3,219
Total expenditures	<u>603,741</u>	<u>122,108</u>	<u>481,632</u>	<u>603,740</u>
Revenues over (under) expenditures	<u>(300,170)</u>	<u>(24,421)</u>	<u>(275,749)</u>	<u>(300,170)</u>
Other Financing Sources (Uses):				
Transfers in	<u>300,170</u>	<u>300,170</u>	<u>-</u>	<u>300,170</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 275,749</u>	<u>\$ (275,749)</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, 2015

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Expenditures:				
Capital outlay	\$ 516,202	\$ 256,688	\$ 259,513	\$ 516,201
Revenues over (under) expenditures	<u>(516,202)</u>	<u>(256,688)</u>	<u>(259,513)</u>	<u>(516,201)</u>
Other Financing Sources (Uses):				
Transfers in	<u>516,202</u>	<u>260,000</u>	<u>256,201</u>	<u>516,201</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 3,312</u>	<u>\$ (3,312)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**CAPITAL PROJECT FUND - PINE STREET ASSISTED LIVING
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>
Revenues:				
Proceeds from grants	\$ 3,100,294	\$ 2,722,219	\$ 109,023	\$ 2,831,242
Expenditures:				
Contracted services	3,100,294	2,723,914	107,328	2,831,242
Net change in fund balance	\$ -	\$ (1,695)	\$ 1,695	\$ -

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - OAK AVENUE SIDEWALK
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2015

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Proceeds from grants	\$ 630,000	\$ -	\$ 51,768	\$ 51,768
Expenditures:				
Capital outlay	820,000	-	64,710	64,710
Revenues over (under) expenditures	(190,000)	-	(12,942)	(12,942)
Other Financing Sources (Uses):				
Transfers in	190,000	90,000	-	90,000
Net change in fund balance	\$ -	\$ 90,000	\$ (12,942)	\$ 77,058

CITY OF KANNAPOLIS, NORTH CAROLINA

**CAPITAL PROJECT FUND - LITTLE TEXAS ROAD SIDEWALK
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Proceeds from grants	\$ 153,000	\$ -	\$ -	\$ -
Expenditures:				
Capital outlay	204,000	-	-	-
Revenues over (under) expenditures	(51,000)	-	-	-
Other Financing Sources (Uses):				
Transfers in	51,000	-	51,000	51,000
Net change in fund balance	\$ -	\$ -	\$ 51,000	\$ 51,000

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - GLEN AFTON TO GOODMAN ROAD CONNECTION
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2015

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues:				
Proceeds from grants	\$ 453,300	\$ -	\$ 41,275	\$ 41,275
Expenditures:				
Capital outlay	493,100	-	45,861	45,861
Revenues over (under) expenditures	(39,800)	-	(4,586)	(4,586)
Other Financing Sources (Uses):				
Transfers in	39,800	-	39,800	39,800
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,214</u>	<u>\$ 35,214</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 four separate Water and Sewer Capital Project Funds for accounting purposes, listed as follows:

Shiloh Church Road Extension Fund
Revenue Bonds 2014 Fund
Highway 73 (Exit 55) Water Line Fund
Mooreville Road Water Main Fund

The City maintains one Stormwater Project Fund for accounting purposes, listed as follows:

8th Street Culvert Replacement Fund

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, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating Revenues:			
Charges for services:			
Water and sewer charges	\$ 13,910,321	\$ 12,814,150	\$ (1,096,171)
Water and sewer taps	600,000	492,248	(107,752)
Penalties	385,000	392,064	7,064
Other	<u>11,000</u>	<u>9,695</u>	<u>(1,305)</u>
Total operating revenues	<u>14,906,321</u>	<u>13,708,157</u>	<u>(1,198,164)</u>
Non-Operating Revenues:			
Interest on investments	<u>3,500</u>	<u>2,535</u>	<u>(965)</u>
Total revenues	<u>14,909,821</u>	<u>13,710,692</u>	<u>(1,199,129)</u>
Expenditures:			
Administration:			
Salaries and employee benefits	495,821	388,669	107,152
Operating expenditures	258,318	226,613	31,705
Repairs and maintenance	<u>1,532</u>	<u>1,532</u>	<u>-</u>
Total	<u>755,671</u>	<u>616,814</u>	<u>138,857</u>
Distribution:			
Salaries and employee benefits	1,560,992	1,419,434	141,558
Operating expenditures	580,795	511,700	69,095
Repairs and maintenance	285,234	281,713	3,521
Capital outlay	<u>474,042</u>	<u>252,475</u>	<u>221,567</u>
Total	<u>2,901,063</u>	<u>2,465,322</u>	<u>435,741</u>
Filter Plant:			
Salaries and employee benefits	568,236	545,455	22,781
Operating expenditures	1,447,567	1,378,118	69,449
Repairs and maintenance	200,250	131,037	69,213
Capital outlay	<u>559,788</u>	<u>211,145</u>	<u>348,643</u>
Total	<u>2,775,841</u>	<u>2,265,755</u>	<u>510,086</u>
General Services	<u>1,102,500</u>	<u>1,102,500</u>	<u>-</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, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Sewage Treatment	2,727,984	2,570,340	157,644
Debt Service:			
Principal	2,285,874	2,280,158	5,716
Interest and fees	1,414,711	1,314,183	100,528
Total debt service	3,700,585	3,594,341	106,244
Total expenditures	13,963,644	12,615,072	1,348,572
Revenues over (under) expenditures	946,177	1,095,620	149,443
Other Financing Sources (Uses):			
Transfers out	(1,048,177)	(1,048,177)	-
Appropriated fund balance	102,000	-	(102,000)
Total other financing sources (uses)	(946,177)	(1,048,178)	(102,001)
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	47,442	<u>\$ 47,442</u>
Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Depreciation and amortization		(2,458,406)	
Capital outlay		463,620	
Payment of debt principal		2,280,158	
Change in accrued interest		26,165	
Change in other post-employment benefits		(339,058)	
Change in compensated absences		(1,409)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		168,202	
Pension expense		(5,910)	
Interest from capital projects		16,972	
Contributions from developer		1,330,735	
Change in net position		<u>\$ 1,528,512</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - SHILOH CHURCH ROAD EXTENSION FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2015

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Expenditures:				
Capital outlay	\$ 1,042,000	\$ 249,131	\$ -	\$ 249,131
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	<u>-</u>	<u>249,131</u>	<u>-</u>	<u>249,131</u>
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 - REVENUE BONDS 2014 FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2015

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Interest income	\$ -	\$ 45,109	\$ 16,972	\$ 62,081
Expenditures:				
Capital outlay:				
Albemarle water line	11,111,545	4,271,451	5,307,643	9,579,094
Meter exchange project	6,138,228	5,223,844	862,914	6,086,758
Water intake and clear well	1,016,388	114,650	478,287	592,937
Irish Buffalo Creek sewer project	741,080	-	48,122	48,122
Debt issuance costs	132,319	76,170	5,960	82,130
Total expenditures	<u>19,139,560</u>	<u>9,686,115</u>	<u>6,702,926</u>	<u>16,389,041</u>
Revenues over (under) expenditures	<u>(19,139,560)</u>	<u>(9,641,006)</u>	<u>(6,685,954)</u>	<u>(16,326,960)</u>
Other Financing Sources (Uses):				
Transfers in	539,560	204,910	-	204,910
Debt issued	<u>18,600,000</u>	<u>18,245,000</u>	<u>-</u>	<u>18,245,000</u>
Total other financing sources (uses)	<u>19,139,560</u>	<u>18,449,910</u>	<u>-</u>	<u>18,449,910</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 8,808,904</u>	<u>\$ (6,685,954)</u>	<u>\$ 2,122,950</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - HIGHWAY 73 (EXIT 55) WATER LINE FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2015

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

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - MOORESVILLE ROAD WATER MAIN FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2015

	Project Authorization	Actual		Total to Date
	Prior Years	Current Year		
Expenditures:				
Capital outlay	\$ 3,000,000	\$ 42,482	\$ 61,753	\$ 104,235
Revenues over (under) expenditures	<u>(3,000,000)</u>	<u>(42,482)</u>	<u>(61,753)</u>	<u>(104,235)</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (42,482)</u>	<u>\$ (61,753)</u>	<u>\$ (104,235)</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

STORMWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services:			
Sales and services	\$ 1,866,536	\$ 1,775,288	\$ (91,248)
Expenditures:			
Salaries and employee benefits	620,333	600,879	19,454
Operating expenditures	497,906	488,654	9,252
General services	205,108	205,108	-
Capital outlay	219,703	219,703	-
Total	<u>1,543,050</u>	<u>1,514,344</u>	<u>28,706</u>
Debt Service:			
Principal	575,643	575,049	594
Interest	91,436	91,436	-
Total	<u>667,079</u>	<u>666,485</u>	<u>594</u>
Total expenditures	<u>2,210,129</u>	<u>2,180,829</u>	<u>29,300</u>
Revenues over (under) expenditures	<u>(343,593)</u>	<u>(405,541)</u>	<u>(61,948)</u>
Other Financing Sources (Uses):			
Transfers in	125,000	215,256	90,256
Debt issued	218,593	218,593	-
Total other financing sources (uses)	<u>343,593</u>	<u>433,849</u>	<u>90,256</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>28,308</u>	<u>\$ 28,308</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Reconciling items:			
Depreciation and amortization		(148,515)	
Capital outlay		219,703	
Intrafund transfers		(90,256)	
Debt proceeds		(218,593)	
Change in interest accrued		750	
Change in other post-employment benefits		(97,950)	
Change in compensated absences		(2,993)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		50,461	
Pension expense		(1,773)	
Payment of debt principal		575,049	
Total		<u>285,883</u>	
Change in net position		<u>\$ 314,191</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

STORMWATER CAPITAL PROJECT - 8TH STREET CULVERT REPLACEMENT FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2015

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
Expenditures:				
Engineering/consultants	\$ 363,448	\$ 241,655	\$ 121,792	\$ 363,447
Capital outlay	806,297	592,401	213,896	806,297
Total expenditures	<u>1,169,745</u>	<u>834,056</u>	<u>335,688</u>	<u>1,169,744</u>
Revenues over (under) expenditures	<u>(1,169,745)</u>	<u>(834,056)</u>	<u>(335,688)</u>	<u>(1,169,744)</u>
Other Financing Sources (Uses):				
Debt issued	1,260,000	1,260,000	-	1,260,000
Transfers out	<u>(90,255)</u>	<u>-</u>	<u>(90,256)</u>	<u>(90,256)</u>
Total other financing sources (uses)	<u>1,169,745</u>	<u>1,260,000</u>	<u>(90,256)</u>	<u>1,169,744</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 425,944</u>	<u>\$ (425,944)</u>	<u>\$ -</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, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services:			
Sales and services	\$ 1,642,000	\$ 1,599,561	\$ (42,439)
Miscellaneous revenue	-	9,288	9,288
Total revenues	<u>1,642,000</u>	<u>1,608,849</u>	<u>(33,151)</u>
Expenditures:			
Salaries and employee benefits	58,848	57,771	1,077
Operating expenditures	129,178	121,304	7,874
Contracted services	<u>3,411,800</u>	<u>3,335,860</u>	<u>75,940</u>
Total	<u>3,599,826</u>	<u>3,514,935</u>	<u>84,891</u>
Debt Service:			
Principal	169,715	169,715	-
Interest	<u>6,214</u>	<u>6,213</u>	<u>1</u>
Total	<u>175,929</u>	<u>175,928</u>	<u>1</u>
Total expenditures	<u>3,775,755</u>	<u>3,690,863</u>	<u>84,892</u>
Revenues over (under) expenditures	<u>(2,133,755)</u>	<u>(2,082,014)</u>	<u>51,741</u>
Other Financing Sources (Uses):			
Transfers in	2,023,177	2,023,177	-
Appropriated fund balance	<u>110,578</u>	<u>-</u>	<u>(110,578)</u>
Total other financing sources (uses)	<u>2,133,755</u>	<u>2,023,177</u>	<u>(110,578)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(58,837)</u>	<u>\$ (58,837)</u>
Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Reconciling items:			
Other post-employment benefits		(7,535)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		5,607	
Pension expense		(198)	
Payment of debt principal		<u>169,715</u>	
Total		<u>167,589</u>	
Change in net position		<u>\$ 108,752</u>	

Additional Financial Data

This section contains additional information on property taxes and principal taxpayers.

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy

Analysis of Current Tax Levy - Secondary Market Disclosure

Schedule of Principal Taxpayers

This page left blank intentionally.

CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2015

Fiscal Year	Uncollected Balance July 1, 2014	Additions	Collections and Credits	Uncollected Balance June 30, 2015
2014 - 2015	\$ -	\$ 21,535,550	\$ 21,050,962	\$ 484,588
2013 - 2014	586,471	-	381,719	204,752
2012 - 2013	240,401	-	116,696	123,705
2011 - 2012	150,142	-	45,153	104,989
2010 - 2011	118,115	-	25,326	92,789
2009 - 2010	62,496	-	13,114	49,382
2008 - 2009	30,716	-	2,869	27,847
2007 - 2008	20,546	-	892	19,654
2006 - 2007	16,353	-	916	15,437
2005 - 2006	19,739	-	266	19,473
2004 - 2005	16,800	-	16,800	-
	\$ 1,261,779	\$ 21,535,550	\$ 21,654,713	1,142,616
Total				1,142,616
Less: Allowance for uncollectible accounts				418,507
Ad valorem taxes receivable - net				\$ 724,109
Reconciliation with Revenues:				
Ad valorem taxes - General Fund				\$ 21,727,646
Reconciling items:				
Penalties and interest				(150,832)
Discounts				16,374
Taxes written off - State statute				16,800
Miscellaneous adjustment				44,725
Total collections and credits				\$ 21,654,713

CITY OF KANNAPOLIS, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2015

	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	\$ 3,562,736,105	\$ 0.6000	\$ 21,376,417	\$ 19,700,597	\$1,675,820
Property taxed at prior year's rate	308,866	0.5600	1,730	-	1,730
Penalties	-		14,270	14,270	-
Total	<u>3,563,044,971</u>		<u>21,392,417</u>	<u>19,714,867</u>	<u>1,677,550</u>
Discoveries:					
Current year taxes	9,005,428	0.6000	54,032	53,781	251
Prior year taxes	20,045,482	0.5600	112,255	112,175	80
Penalties	-		23,989	23,989	-
Total	<u>29,050,910</u>		<u>190,276</u>	<u>189,945</u>	<u>331</u>
Abatements:					
Property taxed at current year's rate	(7,347,535)	0.6000	(44,085)	(44,085)	-
Property taxed at prior year's rate	(545,977)	0.5600	(3,058)	(2,824)	(234)
Total	<u>(7,893,512)</u>		<u>(47,143)</u>	<u>(46,909)</u>	<u>(234)</u>
Total property valuation	<u>\$ 3,584,202,369</u>				
Net Levy			21,535,550	19,857,903	1,677,647
Less uncollected taxes at June 30, 2015			<u>484,588</u>	<u>484,432</u>	<u>156</u>
Current Year's Taxes Collected			<u>\$ 21,050,962</u>	<u>\$ 19,373,471</u>	<u>\$ 1,677,491</u>
Percent Current Year Collected			<u>97.75%</u>	<u>97.56%</u>	<u>99.99%</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**ANALYSIS OF CURRENT TAX LEVY
SECONDARY MARKET DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2015**

Assessed Valuation:

Assessment Ratio (1)	<u>100.00%</u>
Real property	\$ 3,094,058,468
Personal property	419,316,615
Public service companies (2)	<u>70,827,286</u>
Total assessed valuation	<u>\$ 3,584,202,369</u>
Tax Rate per \$100	<u>0.6000</u>
Levy (includes discoveries, releases, penalties, and abatements)	<u>\$ 21,535,550</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, 2015

<u>Business</u>	<u>Type of Enterprise</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Castle & Cooke NCRC	Real estate	\$ 203,450,870	5.68%
Castle & Cooke LLC	Real estate	85,097,190	2.37%
Trinity of Cabarrus LTD/Shoe Show	Shoe distribution	48,276,477	1.35%
Atlantic American Properties, Inc./ Club at Irish Creek, LLC	Real estate	45,862,653	1.28%
Afton Ridge Joint Venture LLC/ CK Afton Ridge Shopping Center	Real estate	37,077,430	1.03%
Wachovia Development Corp	Warehousing	33,779,270	0.94%
Duke Energy Corporation	Utility	31,930,621	0.89%
Integra Springs LLC	Real estate	26,222,780	0.73%
The Grand in Kannapolis LLC	Real estate	19,472,820	0.54%
Public Service Company of NC, Inc.	Utility	<u>14,713,355</u>	<u>0.41%</u>
Total		<u>\$ 545,883,466</u>	<u>15.22%</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

- Schedules presented in the Statistical Section may differ from financial statement schedules because they usually cover more than one fiscal year and may present non-accounting data. The Statistical Section reflects social and economic data, financial trends, and the fiscal capacity of the City.
-

This page left blank intentionally.

CITY OF KANAPOLIS, NORTH CAROLINA

TABLE 1

NET POSITION BY COMPONENT
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Dollars in Thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental activities										
Net investment in capital assets	\$ 108,313	\$ 111,062	\$ 112,059	\$ 111,834	\$ 112,112	\$ 103,739	\$ 104,875	\$ 105,486	\$ 110,812	\$ 109,955
Restricted	93	100	638	359	650	3,655	3,643	3,242	9,131	3,909
Unrestricted	6,576	8,240	8,821	7,108	6,242	1,424	(1,135)	640	(6,850)	67
Total governmental activities net position	\$ 114,982	\$ 119,402	\$ 121,518	\$ 119,301	\$ 119,004	\$ 108,718	\$ 107,383	\$ 109,368	\$ 113,093	\$ 113,931
Business-type activities										
Net investment in capital assets	\$ 35,047	\$ 39,611	\$ 44,953	\$ 46,667	\$ 47,302	\$ 54,488	\$ 57,456	\$ 58,647	\$ 60,310	\$ 61,843
Restricted	-	-	-	-	738	3,791	-	-	-	-
Unrestricted	2,495	6,104	7,486	6,751	8,151	3,018	6,252	4,917	6,551	6,413
Total business-type activities net position	\$ 37,542	\$ 45,715	\$ 52,439	\$ 53,418	\$ 56,191	\$ 61,297	\$ 63,708	\$ 63,564	\$ 66,861	\$ 68,256
Primary government										
Net investment in capital assets	\$ 143,360	\$ 150,673	\$ 157,012	\$ 158,501	\$ 159,414	\$ 158,227	\$ 162,331	\$ 164,133	\$ 171,122	\$ 171,798
Restricted	93	100	638	359	1,388	7,346	3,643	3,242	9,131	3,909
Unrestricted	9,071	14,344	16,307	13,859	14,393	4,442	5,117	5,557	(299)	6,480
Total primary government net position	\$ 152,524	\$ 165,117	\$ 173,957	\$ 172,719	\$ 175,195	\$ 170,015	\$ 171,091	\$ 172,932	\$ 179,954	\$ 182,187

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

CHANGES IN NET POSITION
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Dollars in Thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses										
Governmental activities:										
General government	\$ 5,955	\$ 4,065	\$ 5,481	\$ 5,217	\$ 6,573	\$ 2,876	\$ 8,103	\$ 7,777	\$ 9,674	\$ 5,440
Public safety	9,732	9,771	8,057	10,107	11,275	13,398	12,522	15,028	15,708	16,075
Public works	7,394	4,232	2,918	8,604	6,943	8,711	7,668	5,492	5,639	5,180
Community development	2,259	5,009	8,978	8,453	4,359	14,578	1,533	1,754	1,760	1,829
Parks and recreation	1,208	1,278	1,326	1,268	1,545	1,941	1,931	2,172	2,101	2,454
Interest on long-term debt	233	327	491	607	551	1,868	2,276	2,283	2,205	3,056
Total governmental activities	26,781	24,682	27,251	34,256	31,246	43,372	34,033	34,506	37,087	34,034
Business-type activities:										
Water and sewer	10,193	11,132	11,916	11,711	11,260	11,185	13,045	11,427	12,569	12,482
Stormwater	-	97	1,011	1,485	1,405	1,270	1,436	1,691	1,545	1,586
Environmental services	-	-	-	-	-	-	427	3,314	3,355	3,523
Total business-type activities	10,193	11,229	12,927	13,196	12,665	12,455	14,908	16,432	17,469	17,591
Total primary government expenses	\$ 36,974	\$ 35,911	\$ 40,178	\$ 47,452	\$ 43,911	\$ 55,827	\$ 48,941	\$ 50,938	\$ 54,556	\$ 51,625
Program Revenues										
Governmental activities										
Charges for services:										
General government	\$ 241	\$ 523	\$ 1,669	\$ 1,157	\$ 1,183	\$ 2,310	\$ 2,422	\$ 2,118	\$ 87	\$ 62
Public safety	106	85	139	124	152	135	135	118	133	102
Public works	194	93	189	56	8	98	44	25	13	63
Community development	1,274	832	113	184	110	59	33	136	291	100
Parks and recreation	79	138	258	249	260	258	275	279	256	257
Interest on long-term debt	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions:										
General government	9	90	243	95	33	204	27	65	933	769
Public safety	1	12	135	88	28	602	29	970	791	212
Public works	1,283	1,266	23	-	-	-	-	-	-	-
Community development	-	-	1,250	200	-	-	-	-	-	104
Parks and recreation	26	16	-	8	-	-	-	-	-	-
Capital grants and contributions:										
General government	-	-	258	1,206	590	366	3	1,536	5,499	1,520
Public safety	-	-	202	18	128	176	382	299	2,722	-
Public works	-	2,475	1,557	1,935	1,508	1,481	1,731	1,468	1,264	1,572
Community development	13,074	573	1,054	1,004	345	958	445	358	506	686
Parks and recreation	-	408	426	777	32	-	-	-	-	-
Total governmental activities program revenues	16,287	6,511	7,516	7,101	4,377	6,647	5,526	7,372	12,495	5,447

Continued on next page.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 2 (Continued)

CHANGES IN NET POSITION
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Dollars in Thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Program Revenues (Continued):										
Business-type activities										
Charges for services:										
Water and sewer	11,154	13,463	14,003	12,050	12,146	13,135	13,627	13,661	14,573	13,708
Stormwater	-	218	1,441	1,389	1,398	1,472	1,504	1,671	1,699	1,775
Environmental services	-	-	-	-	-	35	631	1,264	1,274	1,609
Capital grants and contributions:										
Water and sewer	1,380	5,451	4,014	609	2,084	2,775	1,137	237	1,655	1,331
Environmental services	-	-	-	-	-	-	67	3	-	-
Total business-type activities program revenues	12,534	19,132	19,458	14,048	15,628	17,417	16,966	16,836	19,201	18,423
Total primary government program revenues	\$ 28,821	\$ 25,643	\$ 26,974	\$ 21,149	\$ 20,005	\$ 24,064	\$ 22,492	\$ 24,208	\$ 31,696	\$ 23,870
Net (Expense)/Revenue										
Governmental activities	\$ (10,493)	\$ (18,170)	\$ (19,735)	\$ (27,154)	\$ (26,869)	\$ (36,725)	\$ (28,505)	\$ (27,132)	\$ (24,592)	\$ (28,587)
Business-type activities	2,341	7,903	6,531	851	2,963	4,962	2,058	401	1,732	832
Total primary government net (expense)/revenue	\$ (8,152)	\$ (10,267)	\$ (13,204)	\$ (26,303)	\$ (23,906)	\$ (31,763)	\$ (26,447)	\$ (26,731)	\$ (22,860)	\$ (27,755)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Ad valorem taxes	\$ 11,240	\$ 12,011	\$ 13,213	\$ 17,165	\$ 18,252	\$ 18,379	\$ 18,585	\$ 19,274	\$ 19,935	\$ 21,586
Sales tax	4,954	5,221	5,412	4,979	5,309	5,218	5,698	6,212	6,486	7,341
Other taxes and licenses	452	530	711	701	797	786	786	944	1,189	946
Franchise tax	1,311	1,311	1,576	1,724	1,779	1,830	1,825	1,840	1,906	2,476
Unrestricted intergovernmental revenues	456	543	502	209	69	228	515	186	195	209
Investment earnings	380	399	366	76	35	32	78	113	125	193
Gain on sale of capital assets	-	2,568	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Transfers	(382)	9	68	83	331	-	(316)	548	(1,520)	(1,100)
Total general revenues and transfers	18,411	22,592	21,848	24,937	26,572	26,439	27,171	29,117	28,316	31,651
Business-type activities:										
Investment earnings	219	278	261	211	140	144	36	3	45	19
Transfers	371	(9)	(68)	(83)	(331)	-	316	(548)	1,520	1,100
Total business-type activities	\$ 590	\$ 269	\$ 193	\$ 128	\$ (191)	\$ 144	\$ 352	\$ (545)	\$ 1,565	\$ 1,119
Change in Net Position										
Governmental activities	\$ 7,918	\$ 4,422	\$ 2,113	\$ (2,217)	\$ (297)	\$ (10,286)	\$ (1,334)	\$ 1,985	\$ 3,724	\$ 3,064
Business-type activities	2,931	8,172	6,724	979	2,772	5,106	2,410	(144)	3,297	1,951
Total primary government	\$ 10,849	\$ 12,594	\$ 8,837	\$ (1,238)	\$ 2,475	\$ (5,180)	\$ 1,076	\$ 1,841	\$ 7,021	\$ 5,015

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 3

FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Dollars in Thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Fund:										
Reserved	\$ 3,159	\$ 2,075	\$ 3,099	\$ 1,905	-	-	-	-	-	-
Unreserved	1,789	4,193	3,353	3,730	-	-	-	-	-	-
Nonspendable	-	-	-	403	453	35	50	65	53	65
Restricted	-	-	-	2,100	2,990	2,518	2,285	11,013	7,461	7,461
Assigned	-	-	-	-	-	-	-	-	-	250
Unassigned	-	-	-	3,874	2,677	4,135	6,706	9,861	3,069	9,861
Total General Fund	\$ 4,948	\$ 6,268	\$ 6,452	\$ 5,635	\$ 6,377	\$ 6,120	\$ 6,688	\$ 9,041	\$ 14,135	\$ 17,637
City Office/Public Safety Building										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,206
Unassigned	-	-	-	-	-	-	-	-	-	(1,802)
Total City Office/Public Safety Building	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,404
All Other Governmental Funds										
Reserved	-	\$ 216	\$ 73	\$ 275	-	-	-	-	-	-
Unreserved report in:										
Special revenue funds	1,333	1,625	1,496	1,597	-	-	-	-	-	-
Capital project funds	49	1,366	3,986	1,054	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	-	214
Restricted	-	-	-	1,999	22,467	12,460	6,646	8,043	1,099	1,099
Committed	-	-	-	-	1,250	308	3,680	93	76	76
Unassigned	-	-	-	-	(396)	(224)	(29)	(2,753)	(185)	(185)
Total all other governmental funds	\$ 1,382	\$ 3,207	\$ 5,555	\$ 2,926	\$ 1,999	\$ 23,321	\$ 12,544	\$ 10,297	\$ 5,383	\$ 1,204

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Dollars in Thousands)

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues:										
Ad valorem taxes	\$ 11,283	\$12,121	\$13,273	\$17,589	\$17,907	\$18,235	\$18,600	\$19,032	\$ 20,243	\$ 21,728
Other taxes and licenses	5,405	5,751	6,124	5,680	6,106	5,971	6,484	7,156	7,675	8,287
Unrestricted intergovernmental revenues	1,767	1,854	2,078	1,933	1,848	2,058	2,340	2,028	2,100	2,685
Restricted intergovernmental revenues	3,167	2,439	3,874	3,676	2,322	3,635	2,129	4,247	6,784	3,976
Sales and services	1,661	1,418	1,162	1,306	1,195	912	2,101	1,767	780	594
Investment earnings	379	399	366	75	35	32	78	113	125	193
Miscellaneous	233	1,048	2,479	739	1,254	2,038	808	909	933	887
Total revenues	23,895	25,030	29,356	30,998	30,667	32,881	32,540	35,252	38,640	38,350
Expenditures:										
General Government	3,665	4,145	4,491	4,933	6,579	7,399	7,141	8,358	6,534	5,129
Public safety	9,058	9,637	10,022	11,608	10,949	11,988	11,676	13,865	13,461	15,310
Public works	5,955	5,704	6,112	6,203	5,337	6,489	5,831	3,088	3,449	4,022
Community development	640	617	711	778	731	731	1,679	1,702	1,760	1,829
Parks and recreation	1,113	1,235	1,326	1,502	1,340	1,444	4,474	1,549	1,665	1,829
Nondepartmental	-	-	-	-	-	-	-	-	-	-
Capital Outlay	7,891	7,397	10,364	7,913	3,808	13,947	10,294	3,527	4,764	21,246
Debt service:										
Principal	1,745	2,738	2,346	3,049	3,206	2,456	2,405	8,803	3,050	2,852
Interest and fees	233	378	391	626	574	1,838	1,735	2,368	2,257	2,814
Total expenditures	30,300	31,851	35,763	36,612	32,524	46,292	45,235	43,260	36,940	55,031
Excess of revenues over (under) expenditures	(6,405)	(6,821)	(6,407)	(5,614)	(1,857)	(13,411)	(12,695)	(8,008)	1,700	(16,681)
Other Financing Sources (Uses)										
Transfers from other funds	1,549	1,521	1,401	664	2,071	1,080	704	6,863	6,628	893
Transfers to other funds	(1,930)	(1,511)	(1,334)	(581)	(1,740)	(1,080)	(373)	(6,315)	(8,148)	(1,993)
Proceeds of installment financing	2,557	5,469	8,872	2,087	1,340	971	3,000	7,566	-	-
Debt service reserve	-	-	-	-	-	-	(19)	-	-	-
Capitalized interest	-	-	-	-	-	-	(826)	-	-	-
Payments to bondholders	-	-	-	-	-	(1,330)	-	-	-	-
Premium on long-term debt	-	-	-	-	-	789	-	-	-	-
Proceeds of limited obligation bonds	-	-	-	-	-	34,185	-	-	-	2,303
Total other financing sources (uses)	2,176	5,479	8,939	2,170	1,671	34,475	2,486	8,114	(1,520)	25,990
Net change in fund balances	\$ (4,229)	\$ (1,342)	\$ 2,532	\$ (3,444)	\$ (186)	\$ 21,064	\$ (10,209)	\$ 106	\$ 180	\$ 10,512
Debt service as a percentage of noncapital expenditures	8.83%	12.74%	-0.03%	-0.06%	-0.14%	-0.07%	-0.04%	-0.11%	14.37%	10.30%

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 rec of activities and the statement of revenues, expenditures, and changes in fund balance.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 5

ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year	Real Property	Personal Property	Public Service Companies ⁽²⁾	Total Assessed Value	Total Direct Tax Rate ⁽³⁾
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
2014	3,031,530,139	468,707,556	68,379,259	3,568,616,954	0.560
2015	3,094,058,468	419,316,615	70,827,286	3,584,202,369	0.600

Notes: ⁽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⁾ Tax rates are per \$100 of assessed value.

CITY OF KANANPOLIS, NORTH CAROLINA

TABLE 6

DIRECT AND OVERLAPPING PROPERTY TAX RATES

Last Ten Fiscal Years

(Rate per \$100 of Assessed Value)

	2006	2007	2008 ⁽²⁾	2009 ⁽³⁾	2010	2011	2012 ⁽⁴⁾	2013 ⁽⁵⁾	2014	2015
City of Kannapolis:										
General fund	0.4970	0.4970	0.4970	0.4900	0.4900	0.4900	0.4900	0.5600	0.5600	0.6000
County Rates:										
Cabarrus	0.6300	0.6289	0.6300	0.6300	0.6300	0.6300	0.6300	0.7000	0.7000	0.7000
Rowan	0.6300	0.6300	0.5950	0.5950	0.5950	0.5950	0.6225	0.6225	0.6225	0.6625

Note:

- (2) Real property was revalued by Rowan County on January 1, 2007
- (3) Real property was revalued by Cabarrus County on January 1, 2008
- (4) Real property was revalued by Rowan County on January 1, 2011
- (5) Real property was revalued by Cabarrus County on January 1, 2012

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 7

PRINCIPAL PROPERTY TAXPAYERS
Current Year and Nine Years Ago

Taxpayer	Type of Business	Fiscal Year 2015			Fiscal Year 2006		
		Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Castle & Cooke NCR	Real Estate	\$ 203,450,870	1	5.68%	-	-	-
Castle & Cooke LLC	Real Estate	85,097,190	2	2.37%	-	-	-
Trinity of Cabarrus LTD /Shoe Show	Shoe Distribution	48,276,477	3	1.35%			
Atlantic American Properties/ Club at Irish Creek, LLC	Real Estate	45,862,653	4	1.28%	\$ 23,160,330	3	1.02%
Afton Ridge Joint Venture LLC/ CK Afton Ridge Shopping Center	Real Estate	37,077,430	5	1.03%	26,011,011	2	1.15%
Wachovia Development Corp	Warehousing	33,779,270	6	0.94%	-	-	-
Duke Energy Corp	Utility	31,930,621	7	0.89%	20,000,144	4	0.88%
Integra Springs LLC	Real Estate	26,222,780	8	0.73%	-	-	-
The Grand in Kannapolis LLC	Real Estate	19,472,820	9	0.54%	-	-	-
Public Service Company of NC, Inc.	Utility	14,713,355	10	0.41%	8,114,790	10	0.36%
Citicorp North America	Warehousing	-	-	-	32,351,750	1	1.43%
CK Lakepoint Corp. Center LLC	Real Estate	-	-	-	11,824,120	6	0.52%
Fieldcrest/Cannon, Inc.	Textiles	-	-	-	11,519,212	7	0.51%
David Murdock	Real Estate	-	-	-	11,396,094	8	0.50%
Concord Telephone Company	Utility	-	-	-	12,079,941	5	0.53%
Cloverleaf Shopping Center Assoc.	Real Estate	-	-	-	8,374,558	9	0.37%
Total		\$ 545,883,466		15.22%	\$ 164,831,950		7.27%

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

Source: Cabarrus County and Rowan County Tax Departments

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 Adjusted Levy		Amount	Percentage of Adjusted Levy
2006	11,325,147	57,037	(99,974)	11,282,210	10,911,354	96.71%	351,383	11,262,737	99.83%
2007	11,808,304	274,344	(150,952)	11,931,696	11,630,033	97.47%	286,226	11,916,259	99.87%
2008	13,145,903	138,268	(131,666)	13,152,505	12,849,354	97.70%	283,497	13,132,851	99.85%
2009	17,313,980	329,399	(25,459)	17,617,920	17,177,163	97.50%	412,910	17,590,073	99.84%
2010	18,211,307	171,026	(192,864)	18,189,469	17,471,125	96.05%	668,962	18,140,087	99.73%
2011	18,385,221	80,004	(72,720)	18,392,505	17,638,052	95.90%	661,664	18,299,716	99.50%
2012	18,661,612	115,408	(35,161)	18,741,859	18,053,024	96.32%	583,846	18,636,870	99.44%
2013	19,281,030	197,718	(148,628)	19,330,120	18,620,309	96.33%	586,107	19,206,416	99.36%
2014	20,012,799	87,303	(83,385)	20,016,717	19,430,246	97.07%	381,719	19,811,965	98.98%
2015	21,392,417	190,276	(47,143)	21,535,550	21,050,962	97.75%	-	21,050,962	97.75%

Source: City of Kannapolis Finance Department

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 9

RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property ⁽¹⁾	Per Capita ⁽²⁾
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%	-
2014	-	0.00%	-
2015	-	0.00%	-

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

⁽¹⁾ See Table 5 for total assessed value of property.

⁽²⁾ See Table 14 for population data.

TABLE 10

CITY OF KANANPOLIS, NORTH CAROLINA

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	Premium on Bond Issuance	Installment Obligations	General Obligation Bonds	W/S Revenue Bonds	Limited Obligation Bonds			
2006	11,005,946	1,328,000	-	-	3,843,185	88,499	32,980,142	-	49,245,772	1,257	1.11%
2007	12,995,769	1,975,000	-	-	4,520,423	-	30,630,074	-	50,121,266	1,249	1.06%
2008	19,670,078	1,826,000	-	-	6,360,457	-	28,333,220	-	56,189,755	1,361	1.11%
2009	18,861,800	1,672,000	-	-	5,495,178	-	25,954,117	-	51,983,095	1,214	0.96%
2010	17,154,850	1,513,000	-	-	6,261,384	-	23,477,283	-	48,406,517	1,098	0.91%
2011	14,503,541	1,349,000	-	-	6,114,144	-	21,607,221	815,500	78,573,906	1,750	1.45%
2012	11,357,867	1,180,000	-	-	8,718,447	-	17,620,006	-	73,301,320	1,712	1.29%
2013	11,594,133	1,006,000	-	-	9,144,385	-	16,366,902	-	71,236,420	1,647	1.16%
2014	10,163,453	827,000	-	-	7,929,905	-	33,224,348	-	83,829,706	1,935	1.33%
2015	9,850,170	643,000	-	2,272,933	7,022,767	-	31,325,159	-	106,434,029	2,399	*

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.

* Information not yet available. Calendar year 2015 personal income not available to calculate fiscal year 2015 percentage of personal income.

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

As of June 30, 2015

(Dollars in Thousands)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
Cabarrus County General Obligation Debt	90,567	16.24%	\$14,708
Cabarrus County COPS/LOBS	281,570	16.24%	45,727
Cabarrus County Capital Leases	4,506	16.24%	732
Rowan County General Obligation Debt	45,498	4.07%	1,852
Rowan County Installment Financing	28,976	4.07%	1,179
Subtotal, overlapping debt			64,198
City direct debt			<u>65,813</u>
Total direct and overlapping debt			<u><u>\$130,011</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.

TABLE 12

CITY OF KANNAPOLIS, NORTH CAROLINA

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

(Dollars in Thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Assessed Value of Property	\$ 2,270,062	\$ 2,400,743	\$ 2,646,379	\$ 3,548,651	\$ 3,706,995	\$ 3,737,493	\$ 3,791,828	\$ 3,456,237	\$ 3,568,617	\$ 3,584,202
Debt Limit, 8% of Assessed Value (Statutory Limitation)	181,605	192,059	211,710	283,892	296,560	298,999	303,346	276,499	285,489	286,736
Debt applicable to debt limitations:										
General obligation bonds	88	-	-	-	-	-	-	-	-	-
Limited obligation bonds	-	-	-	-	-	35,000	34,425	33,125	31,685	57,593
Installment obligations	16,177	19,491	27,856	26,028	24,929	21,967	21,256	21,744	18,920	17,516
Less: Amount of bonded debt incurred for water purposes	(23)	-	-	-	-	-	-	-	-	-
Total net debt applicable to limitations	16,242	19,491	27,856	26,028	24,929	56,967	55,681	54,869	50,605	75,109
Legal debt margin	\$ 165,363	\$ 172,568	\$ 183,854	\$ 257,864	\$ 271,631	\$ 242,032	\$ 247,665	\$ 221,630	\$ 234,884	\$ 211,627
Total net debt applicable to the limit as a percentage of debt limit	8.94%	10.15%	13.16%	9.17%	8.41%	19.05%	18.36%	19.84%	17.73%	26.19%

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.

PLEGGED - REVENUE COVERAGE
Last Ten Fiscal Years

Fiscal Year	Utility Service Charges				Less:		Net Available Revenue		Water and Sewer Revenue Bonds		Coverage
	Charges	Operating Expenses	Operating Expenses	Net Available Revenue	Principal	Interest	Total				
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				
2014	14,618,245	8,933,072	5,685,173	1,387,555	864,802	2,252,357	2.52				
2015	13,725,129	8,955,314	4,769,815	2,280,158	1,314,183	3,594,341	1.33				

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.

TABLE 14

CITY OF KANNAPOLIS, NORTH CAROLINA

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Fiscal Years

Year	Population ⁽¹⁾		Personal Income ⁽²⁾ (Dollars in Thousands)		Per Capita Personal Income ⁽²⁾		Public School Enrollment ⁽³⁾		Unemployment Rate ⁽⁴⁾	
	Cabarrus County	Rowan County	Cabarrus County	Rowan County	Cabarrus County	Rowan County	Public School Enrollment ⁽³⁾	Cabarrus County	Rowan County	
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	4,334,051	7,025,450	4,334,051	38,079	31,365	5,442	7.9%	8.8%	
2014	43,782	4,317,017	7,301,723	4,317,017	39,000	31,210	5,554	6.0%	6.5%	
2015	44,359	*	*	*	*	*	5,707	5.3%	6.0%	

* Information not yet available.

Notes: ⁽¹⁾ The 2006-2008 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

The 2014 population of 43,782 was determined by the 2012 census.

The 2015 population of 44,459 was estimated from the US Census Bureau

⁽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 figures were determined from the Bureau of Economic Analysis | US Department of Commerce

The 2014 Personal Income and Per Capita Personal Income for Cabarrus and Rowan Counties are not available as of October 2014

The 2015 figures were determined from the Bureau of Economic Analysis | US Department of Commerce

⁽³⁾ Kannapolis City Schools

⁽⁴⁾ Source: N. C. Employment Security Commission - <https://desncc.com/PMINewsRates>

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

2015 unemployment rates for Cabarrus and Rowan County were determined by NC. E.S.C as of May 2015

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 15

PRINCIPAL EMPLOYERS

Current and Ten Years Ago

Employer	Fiscal Year 2015			Fiscal Year 2005		
	Employees	Rank	Percentage of Total Cabarrus County and Rowan County Employment	Employees	Rank	Percentage of Total Cabarrus County and Rowan County Employment
Shoe Show	875	1	0.54%	575	2	0.43%
Kannapolis City Schools	809	2	0.50%	725	1	0.54%
Cabarrus County Schools	411	3	0.25%	343	4	0.25%
Wayne Brothers	378	4	0.23%	-	-	-
North Carolina Research Campus	353	5	0.22%	-	-	-
City of Kannapolis	321	6	0.20%	290	5	0.21%
Target	300	7	0.19%	350	3	0.26%
Stewart-Haas Racing LLC	288	8	0.18%	-	-	-
Cabarrus Health Alliance	220	9	0.14%	247	7	0.18%
Stanley Works	219	10	0.14%	289	6	0.21%
Food Lion	-	-	-	235	8	0.17%
Kannapolis Health Care	-	-	-	150	9	0.11%
Rowan Cabarrus Community College	-	-	-	130	10	0.10%
Total	4,174		2.59%	3,334		2.46%

For 2005, used Labor Force data from 6/30/04 CAFR, Salisbury Post and telephone inquiries

For 2015, used Labor Force data from N.C. ESC, Cabarrus County Economic Development Corporation, and Cabarrus County Schools

Source: Cabarrus County Economic Development Corporation, telephone inquiries, NC ESC industry data and the Salisbury Post

TABLE 16

CITY OF KANNAPOLIS, NORTH CAROLINA

FULL-TIME EQUIVALENT COUNTY GOVERNMENT EMPLOYEES BY FUNCTION

Last Ten Fiscal Years

Function/Program	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General government	22	21	26	30	30	29	29	28	21 ⁽⁵⁾	29
Public safety	143	153	150	166	168	167	165	187	197	192
Public works admin and engineering	7	7	8	6	6	6	6	7	9	9
Parks and recreation	-	-	-	-	-	-	-	-	10 ⁽⁵⁾	8
Streets and sign shops	21	23	11	11	11	11	9	8	11	8
Stormwater	- ⁽³⁾	2	13	13	12	13	13	13	13	13
Water - Sewer billing and collections	11	11	12	6 ⁽⁴⁾	5	6	6	7	9	8
Water - Sewer distribution	23	22	27	28	27	27	26	27	28	27
Water treatment plant	9	9	10	10	10	10	10	10	10	10
Total	236	248	257	270	269	269	264	287	308	304

Source: Finance Department

Notes: This schedule represents number of persons employed as of June 30th of each year. Vacant positions are not included in the above numbers.

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 that in 2007 the City implemented a new division for Stormwater.

⁽⁴⁾ Data shows that in 2009 the City moved the meter readers from WSBC to WSD.

⁽⁵⁾ The decrease from the prior period in 2013 was due to parks and recreation employees not included in general government. The parks are recreation employees are included in a separate function/program.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 17

OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Government:										
Collection rate for city taxes	96.71%	97.47%	97.70%	97.50%	96.05%	95.90%	96.32%	96.33%	97.07%	97.75%
Applications for employment processed	NA	600	792	1,924	1,521	1,851	1,408	1,554	1,467	1,367
Hiring rate	NA	8.67%	6.00%	5.30%	5.30%	3.67%	3.27%	4.40%	2.65%	2.12%
Parks and Recreation:										
Concerts presented by the City	6	6	7	14	15	14	12	14	19	19
Shelter reservations	397	486	456	788	973	1029	943	911	1580	956
Police:										
Homicide and death investigations	22	14	16	15	12	7	13	55	53	61
Assault investigations	37	53	67	45	66	66	70	34	39	38
Fire:										
Response to all in City incidents within six minutes	NA	NA	NA	85%	90%	89%	89%	90%	84%	81%
Average response time (minutes) for fire calls	NA	4:43	4:35	NA	NA	NA	NA	3:49	4:46	4:20
Number of fire inspections for businesses	871	420	583	902	1,136	1,280	1,550	682	1,420	1,689
Storm water:										
Shoulder work and ditches cleared (miles)	NA	NA	15	8.50	4.50	4.00	9.00	3.47	9.75	3.9
Drainage structures (repaired & constructed)	NA	331	65	65	28	31	133	121	404	16
Streets And Sign Shop:										
Reconstruction resurfacing (miles)	3.75	0.25	4.50	4.89	0.00	0.36	2.83	1.52	3.20	3.65
Pavement repairs (including potholes)	1,173	1,293	1,968	1,917	1,526	1,538	935	1,242	1,654	4,615
Street name signs installed or repaired	414	444	438	359	154	126	202	760	358	182
Information signs installed or repaired	166	220	268	458	332	268	466	638	1,060	1,794
Water Sewer Distribution:										
Water services installed	116	472	99	59	32	35	39	54	53	46
Sewer services installed	60	80	71	40	21	4	11	11	55	10

Continued on next page.

CITY OF KANNAPOLIS, NORTH CAROLINA

OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

TABLE 17 (CONTINUED)

Function/Program	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Water Treatment Plant:										
Total water treated (per billion gallons)	NA	1.350	1.355	1.370	1.270	1.210	1.230	1.305	1.424	1.550
Unit cost of treatment (\$/1,000 Gal)	NA	1.075	1.758	1.753	1.670	1.610	1.670	1.358	1.461	1.490
Water Sewer Billing Collections:										
Average number of walk in customers	5,523	6,505	5,328	6,519	6,543	6,662	6,900	6,221	6,145	6,527
Water and Sewer collection percentage	99.47%	99.45%	99.08%	98.02%	97.00%	97.30%	98.80%	97.63%	98.76%	98.00%

Sources: Various County departments.

- NOTES:
- (1) Data is calendar year
 - (2) Data is average per month
 - NA Data not available

**CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years**

Function/Program	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Parks and recreation:										
Park facilities	7	7	8	8	8	8	8	9	8	8
Acreage	116	114	114	114	114	114	114	114	114	114
Picnic shelters	11	15	15	15	15	15	15	15	15	15
Softball fields	3	3	3	3	3	3	3	4	4	4
Playgrounds	5	5	5	5	5	6	6	7	7	7
Soccer fields	1	1	1	1	1	1	1	1	1	1
Fire Protection:										
Stations	4	4	4	5	5	5	5	5	5	5
Fire trucks (pumper)	9	9	9	10	10	10	10	10	9	8
Fire trucks (ladder)	1	1	1	1	2	2	2	2	2	2
Police:										
Patrol cars	55	64	60	60	66	69	65	56	57	59
Total police vehicles	89	90	93	105	106	107	102	104	103	104
Streets:										
Miles of streets	212	218	222	224	224	225	226	226	227	227
Water:										
Miles of water mains	234	290	300	311	326	325	330	329	320	324
Wastewater:										
Miles of sanitary sewers	300	300	300	315	315	325	318	317	325	316
Treatment capacity ⁽¹⁾	15	15	15	15	15	15	15	15	27	25

Sources: Various City departments.
⁽¹⁾ Data is by Million Gallons (MG)

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 19

PROPERTY VALUES AND CONSTRUCTION
Last Ten Fiscal Years

Fiscal Year Ended June 30	Commercial Construction		New Construction		Residential Construction	Total Value Of New Construction	Total Additions And Alterations	Total Value Of New Construction And Additions
	Number of Units	Value	Number of Units	Value				
2015	41	65,320,262	292	43,319,992		108,640,254	11,901,231	120,541,485
2014	54	22,521,075	298	41,005,304		63,526,379	11,714,672	75,241,051
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

Source: Cabarrus County Inspections Department

This page left blank intentionally.

Compliance Section

- Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed In Accordance with Government Auditing Standards.
 - 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
-

This page left blank intentionally.

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

"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 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, 2015, 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 22, 2015.

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 22, 2015

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

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

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's, 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, 2015. 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, 2015.

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 22, 2015

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's, 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, 2015. 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, 2015.

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 22, 2015

CITY OF KANNAPOLIS, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

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 auditor's 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>
CDBG Entitlement Grants	14.218
Dollar threshold used to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	<u> X </u> Yes _____ No

CITY OF KANNAPOLIS, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

1. Summary of Auditor's Results (continued)

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 auditor's 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, 2015

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, 2015

None

CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

<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 Housing and Urban Development:				
Direct Program:				
CDBG - Entitlement Grants				
2006 Block Grant - Entitlement Grant	14.218		\$ 138,621	\$ -
2011 Block Grant - Entitlement Grant	14.218		26,088	-
2012 Block Grant - Entitlement Grant	14.218		43,298	-
2013 Block Grant - Entitlement Grant	14.218	B-13-MC-37-0017	145,654	-
2014 Block Grant - Entitlement Grant	14.218	B-14-MC-37-0017	139,146	-
2015 Block Grant - Entitlement Grant	14.218		3,500	-
Total CDBG - Entitlement Grants			<u>496,307</u>	-
Passed Through City of Concord:				
2011 Home Investment Partnerships Program	14.239	M-11-DC-370209	45,622	-
2012 Home Investment Partnerships Program	14.239	M-12-DC-370209	95,164	-
2013 Home Investment Partnerships Program	14.239	M-13-DC-370209	59,693	-
2014 Home Investment Partnerships Program	14.239		17,344	-
2014 Home Investment Partnerships Program -program income	14.239	M-14-DC-370209	13,386	-
Total U.S. Department of Housing and Urban Development			<u>727,516</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		205,883	-
Congestion Mitigation and Air Quality	20.205-1		64,710	-
Total U.S. Department of Transportation			<u>270,593</u>	-
Federal Emergency Management Agency:				
U.S. Department of Homeland Security:				
Direct Program:				
Assistance to Firefighters Grant	97.044	EMW-2011-FH-00117	197,605	-
Pass-Through the NC Department of Emergency Management:				
Hazard Mitigation Grant	97.039	HMGP 4019-0024/2A660070	109,023	-
Total Federal Emergency Management Agency:			<u>306,628</u>	-
Total Assistance - Federal Programs			<u>1,304,737</u>	-
State Awards:				
N.C. Department of Transportation:				
Powell Bill			-	1,669,851
Golden Leaf Foundation:				
Special Incentives - Project Jordan		FY2015-025	-	41,275
Total Assistance - State Programs			-	<u>1,711,126</u>
Total Federal and State Assistance			<u>\$ 1,304,737</u>	<u>\$ 1,711,126</u>

Notes to the Schedule of Federal and State Financial Assistance:

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.

This page left blank intentionally.