

**CITY OF KANNAPOLIS  
NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2018**



**CITY OF KANNAPOLIS  
NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2018**

Prepared by:  
Finance Department

Finance Director  
Eric Davis

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**CITY OF KANNAPOLIS, NORTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
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## **Introductory Section**

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

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KANNAPOLIS  
Finance

October 5, 2018

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, 2018, 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 2018.

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, 2018 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, 2018, 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 48,880 and the assessed valuation for property tax purposes of \$4,080,738,159. 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 48,880 makes it the 20<sup>th</sup> largest City in North Carolina. There are over 2,400 businesses that have a presence in Kannapolis.

A major initiative in the City over the last decade has been the development of the North Carolina Research Campus (the "NCRC"). The NCRC is the vision of billionaire David H. Murdock and is being developed largely through Castle & Cooke North Carolina, LLC, wholly-owned and managed by Castle & Cooke Holdings, Inc. and owned by Mr. Murdock. Mr. Murdock's vision is to create 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. Multiple facilities are open and operating on the NCRC, including the David H. Murdock Core Laboratory (the "Core Lab"), the Plants for Human Health Building and the Nutrition Research Building. The Core Lab is the centerpiece of the NCRC and houses the David H. Murdock Research Institute as a provider of advanced research technologies to



academic, government and industry scientists, including specialized high-tech equipment such as a 950-megahertz nuclear magnetic resonance spectrometer that has among the highest commercially available magnetic field strength currently available in the world. Duke University is managing the M.U.R.D.O.C.K. Study (a large-scale project studying the long-term health of local citizens with the purpose of identifying biomarkers that allow researchers to customize disease treatment and prevention). 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. Rowan-Cabarrus Community College's Biotechnology Training Center is located on the NCRC in a three-floor, 62,000 square-foot facility that is a "hands-on, realistic training environment." Private and quasi-private sector partners include Carolinas Health Care System, Cabarrus Health Alliance, , Dole Nutrition Institute, and Sensory Spectrum, North State, EnDev Laboratories, Kleer Optix, & BioArmor. The NCRC consists of an area of approximately 283 acres within 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 opened its new 100,000 square foot; \$32 million dollar; City Hall and Public Safety Headquarters. The City Hall and Public Safety Headquarters is a 100 year building outfitted with the latest technology to serve its citizens into the foreseeable future. The building will also includes approximately 6,500 square feet of public meeting space; called The Laureate Center; available for rent 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 has expanded its auto racing facilities to include the first Formula 1 racing team based in North America. The new F1 team began competing globally in 2016. Kannapolis also was successful in recruiting Gordon Food Service's new food distribution center. This \$58 million capital investment by Gordon Foods



Service employs 275 well-paying jobs in the region. Additionally, Amazon will be constructing a new distribution warehouse, scheduled for opening in 2019. The new distribution center will be 1,000,000 square feet of space and will bring another 600 high paying jobs to the area, as well as adding approximately \$85 million to the local tax base.

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, as well as property that housed the former Plant 4 Cannon Textile Mill. The existing buildings have a total of 653,395 square feet of available commercial and residential space.

The City has contracted with the non-profit Development Finance Initiative (DFI), at the UNC-CH School of Government to assist in the revitalization of downtown Kannapolis. DFI has assisted the City in recently adopting a long range strategic plan for the Center City. Currently, the City and DFI are working with LMG & Associates to redevelop and revitalize the first block in the downtown area. LMG was chosen through a competitive Request for Qualifications (RFQ) and proposal process. LMG's proposal will see approximately 270 multi-family apartments constructed, 20,000 square feet of retail space, and a 400 space parking deck. This Demonstration project will infuse the downtown revitalization with a \$60 million jumpstart.

The City is also currently in the design phase, quickly moving into the construction phase, of a new 4,500 seat, \$52 million Sports Entertainment Complex. This facility will also host other types of civic events, as it is planned to be open 365 days a year. In preparation for the Sports Entertainment Complex construction, the City has completed asbestos removal, salvaged historical items, and demolished several buildings, including the K-Town Furniture building. To support all this new development, the City is currently working to upgrade all of its below ground infrastructure throughout the Downtown redevelopment area. This project includes moving, updating, and upgrading all utility lines in the area, as well as installing Street Scape and a Linear park totaling another \$26 million in public investment.

The City anticipates that it will take a minimum of 10 years to redevelop a majority of the available buildings and land in the downtown area. 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 for many years to come.

While the City maintains a high level of focus on the Downtown revitalization efforts, it also is working to improve the major corridors of the city. One such project is the City's purchase and planned renovation of a former shopping center along Cannon Boulevard. The retail space will be updating and prepared for the Community College's Cosmetology school, as well as several other economic development projects. Cannon Boulevard has seen the installation of new trees, new businesses, and will see a new interchange with Interstate 85. Interstate 85 is in the process of being widened from four lanes to eight lanes with construction scheduled for completion in November of 2019. The project will replace several area bridges and update all five Kannapolis interchanges.



In recent years, several major businesses have located in the City, including Stanley Works, Home Depot, Royce Apparel, Target, Linder Industrial Machinery, Aldi Food Stores, Rug & Home Distribution Center, Fairfield Inn, Mictrotel Inns and Suites, Studio One Hotel, Lowes Foods, Best Western Hotel, IHOP Restaurant, Novant Health Logistics Center, Fifth Third Bank, Golden Gait Trailers and Stewart-Haas Racing. Shoe Show, Inc.'s corporate headquarters are in the City. A recent partnership between Childress Klein Properties and the City was established to facilitate a 360,000 square foot speculative industrial building. Childress Klein also built a second 230,000 sf building.

To attract more companies, the City partnered with a private development firm to build the Kannapolis Gateway Business Park (the "Park"). The Park is located on an 85-acre tract on the western side of the City within one mile of I-85. Novant Health occupies a facility in the Park and operates a distribution center that serves its eight hospitals in North Carolina, and Stewart-Haas Racing occupies a 127,497 square-foot racing facility on 26 acres inside the Park. The City's partnering development firm completed a second speculative building (which is fully leased) and a portion of a 12-acre neighborhood retail center inside the Park. The remaining portion of land in the retail center is currently being marketed for additional users.

More than 149,000 persons are employed in Cabarrus and Rowan Counties. The growing population of the City and Cabarrus and Rowan Counties provides a steady flow of workers into the job market. Unemployment rates are below 4% for both Counties. Job training is made possible by the vocational education programs in public schools and by three neighboring community colleges and technical schools.

## **LONG TERM FINANCIAL PLANNING**

In the spring of 2012, the Kannapolis City Council adopted a 10 year financial forecasting model. This model, scheduled for updating in 2018, 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, 2017. 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, 2017**

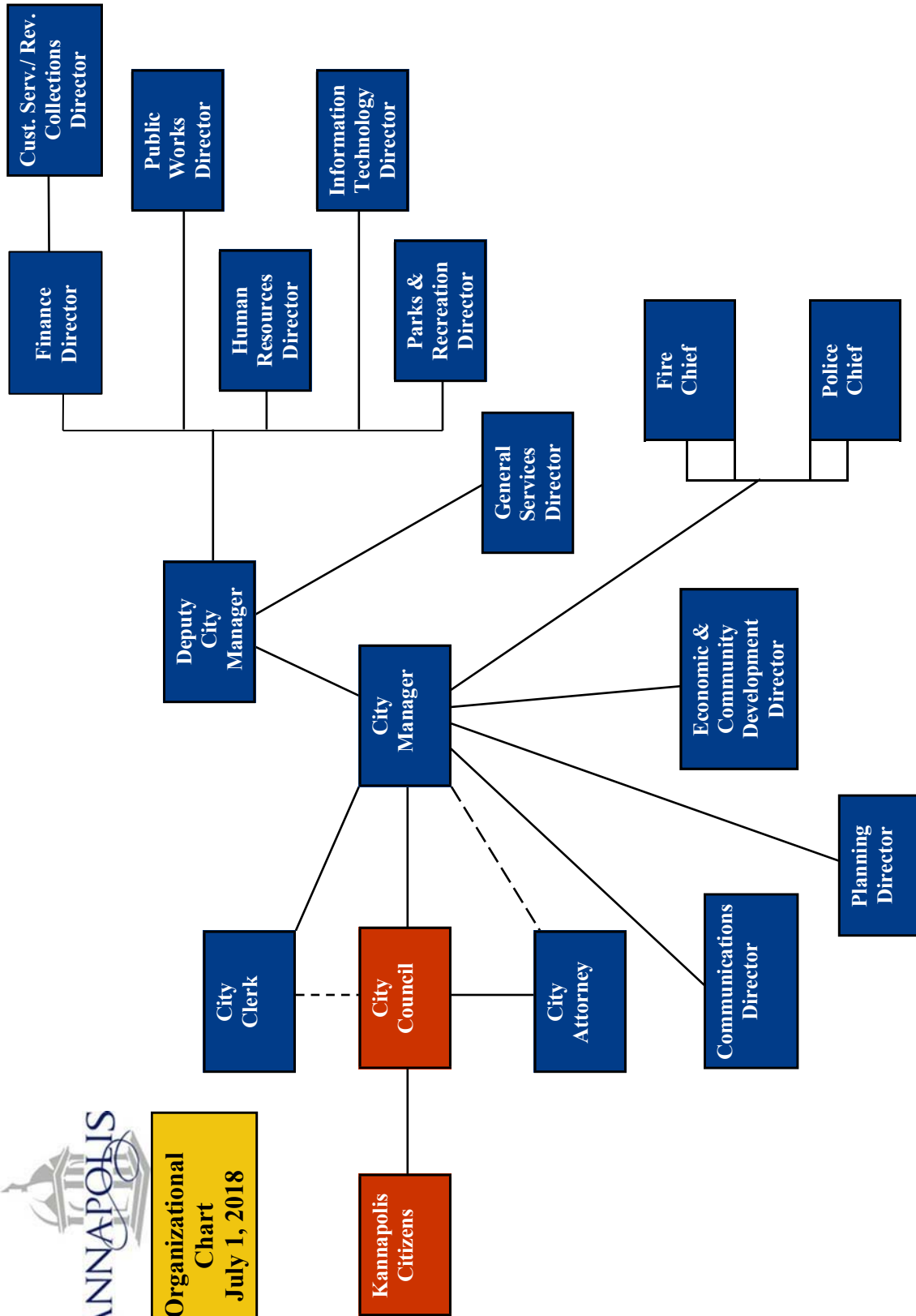
*Christopher P. Morrill*

Executive Director/CEO





**Organizational Chart  
July 1, 2018**



**CITY OF KANNAPOLIS  
NORTH CAROLINA**

**MAYOR AND CITY OFFICIALS**

**MAYOR AND CITY COUNCIL**

M. Darrell Hinnant – Mayor

Dianne Berry– Mayor Pro-tem

Roger D. Haas – Council Member

Ryan G. Dayvault – Council Member

Doug Wilson – Council Member

Van Rowell – Council Member

Tom Kincaid – 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

## **Financial Section**

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

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## & 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, 2018, 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.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kannapolis, North Carolina, as of June 30, 2018, 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.

### ***Change in Accounting Principle***

As discussed in Note 10 to the financial statements, for fiscal year ending June 30, 2018, the City of Kannapolis adopted new accounting guidance, Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, the Other Post-Employment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (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 *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund 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 5, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Kannapolis' 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 5, 2018

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## Management's Discussion and Analysis

As management of the City, we offer readers of the City of Kannapolis' (the "City") financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. 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 \$162,768,094 (*net position*).
- The government's total net position increased by \$3,820,538, due to an increase in the 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 \$30,678,160, which is an increase of \$10,987,236 in fund balance. Approximately 66% of this total amount, or \$20,397,371, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,608,967.
  - The City of Kannapolis' total debt increased \$49,541,402, or 48%, during the current fiscal year. The City issued \$23,877,000 in Revenue Bonds, \$6,477,000 was for the Davidson Road Water and Sudbury Road Sewer Main Capital Project and \$17,400,000 for the Downtown Water and Sewer Capital Project. Notes payable increased \$8,061,962 that included \$3,460,338 for General Fund capital expenditures of Village Park Renovations, a Ladder Truck for the Fire Department and a parking lot for Public Works. Notes Payable were also issued for Environmental Service Trucks in the amount of \$1,079,962 and \$3,521,662 for Downtown Capital Projects. The City borrowed \$26,000,000 in limited obligation bonds. \$7,900,000 for Downtown Capital Projects, \$7,000,000 for Stormwater Downtown Projects and for Fire Stations Two and Three the City borrowed \$11,100,000.
- The City maintained 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**

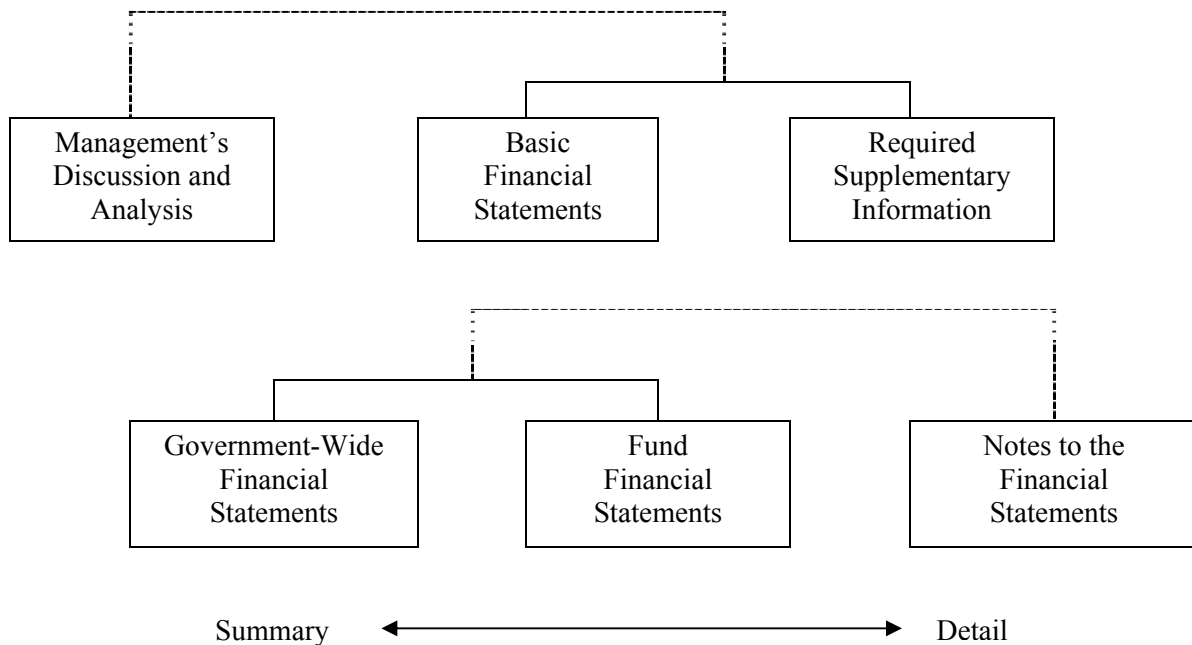
Standard & Poor's	AA-
Moody's	Aa2

## 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 I) 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 three parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary 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, stormwater operations, environmental services operations and downtown..

The government-wide financial statements are on Exhibits A and B of this report, pages 27 through 30.

### **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 two categories: governmental funds and proprietary funds.

**Governmental Funds.** Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in 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 nine 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 Fire Station Improvements 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 31 through 35 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, environmental services operations, and downtown. 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, environmental services operations, and downtown, which are considered major funds of the City.

The basic proprietary fund financial statements can be found on pages 36 through 38 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39 through 91 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 92 through 96 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 97 through 118 of this report for the City's governmental funds and on pages 119 through 132 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 (119.13%) 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 \$9,291,292 and (\$40,423,721), 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.

## City of Kannapolis' Net Position

**Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Assets:</b>						
Current assets	\$ 37,017,415	\$ 23,384,300	\$ 41,991,364	\$ 14,442,001	\$ 79,008,779	\$ 37,826,301
Capital assets	175,464,211	175,036,319	133,916,491	112,620,584	309,380,702	287,656,903
Total assets	212,481,626	198,420,619	175,907,855	127,062,585	388,389,481	325,483,204
<b>Deferred Outflows of Resources</b>						
	4,141,523	4,313,556	866,432	947,294	5,007,955	5,260,850
<b>Liabilities:</b>						
Long-term liabilities outstanding	111,805,209	80,024,742	88,305,876	44,938,022	200,111,085	124,962,764
Other liabilities	12,985,911	9,047,092	11,238,490	6,176,886	24,224,401	15,223,978
Total liabilities	124,791,120	89,071,834	99,544,366	51,114,908	224,335,486	140,186,742
<b>Deferred Inflows of Resources</b>						
	5,121,148	674,281	1,172,708	145,098	6,293,856	819,379
<b>Net Position:</b>						
Net investment in capital assets	116,404,978	115,399,035	101,927,545	71,695,512	218,332,523	187,094,547
Restricted	9,291,292	8,591,335	-	-	9,291,292	8,591,335
Unrestricted	(38,985,389)	(11,002,310)	(25,870,332)	5,054,361	(64,855,721)	(5,947,949)
Total net position	\$ 86,710,881	\$ 112,988,060	\$ 76,057,213	\$ 76,749,873	\$ 162,768,094	\$ 189,737,933

The City's total net position decreased by \$26,969,839, while unrestricted net position decreased this fiscal year by \$58,907,772. Several particular aspects of the City's financial operations influenced the total net position:

- Long-term liabilities increased \$75,148,321 largely due to the implementation of Governmental Accounting Standards Board No. Statement 75 and \$57,938,962 in new borrowings. The Governmental Fund increase in liabilities associated with the implementation of No. 75 was \$24,942,452 and \$5,847,925 in the Enterprise Funds.
- Net position was restated because of the implementation of Governmental Accounting Standards Board No. Statement 75. The governmental activities net position decreased \$24,942,452 and the business type activities decreased \$5,847,925.

## City of Kannapolis' Changes in Net Position

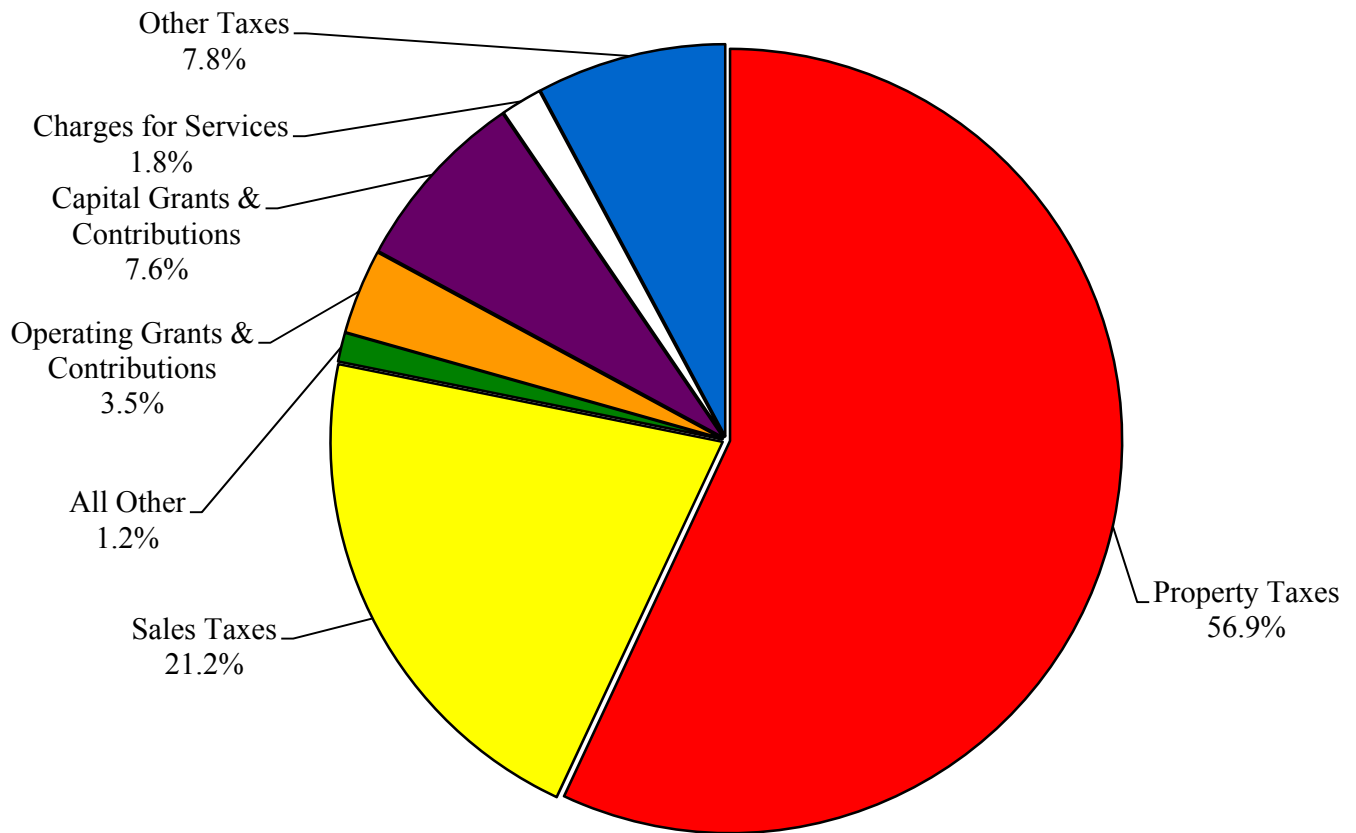
**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 983,092	\$ 733,911	\$ 23,347,533	\$ 21,454,607	\$ 24,330,625	\$ 22,188,518
Operating grants and contributions	1,084,439	1,536,496	100,000	-	1,184,439	1,536,496
Capital grants and contributions	3,227,513	3,321,525	1,653,470	1,115,755	4,880,983	4,437,280
General revenues:						
Property taxes	25,379,013	24,802,152	-	-	25,379,013	24,802,152
Other taxes	12,970,553	12,658,714	-	-	12,970,553	12,658,714
Other revenues	554,774	509,147	309,679	16,193	864,453	525,340
Total revenues	44,199,384	43,561,945	25,410,682	22,586,555	69,610,066	66,148,500
<b>Expenses:</b>						
General government	10,748,242	7,325,045	-	-	10,748,242	7,325,045
Public safety	18,040,320	17,463,089	-	-	18,040,320	17,463,089
Public works	6,749,177	7,235,720	-	-	6,749,177	7,235,720
Community development	1,684,630	1,432,037	-	-	1,684,630	1,432,037
Parks and recreation	2,782,424	1,742,859	-	-	2,782,424	1,742,859
Water and sewer	-	-	14,891,106	14,819,100	14,891,106	14,819,100
Stormwater	-	-	2,112,661	1,900,745	2,112,661	1,900,745
Environmental services	-	-	3,813,820	3,645,484	3,813,820	3,645,484
Downtown	-	-	1,639,030	1,561,489	1,639,030	1,561,489
Other	3,328,118	2,982,155	-	-	3,328,118	2,982,155
Total expenses	43,332,911	38,180,905	22,456,617	21,926,818	65,789,528	60,107,723
Change in net position before transfers	866,473	5,381,040	2,954,065	659,737	3,820,538	6,040,777
Transfers	(2,201,200)	(4,941,200)	2,201,200	4,941,200	-	-
Change in net position	(1,334,727)	439,840	5,155,265	5,600,937	3,820,538	6,040,777
<b>Net Position:</b>						
Beginning of year - July 1	112,988,060	115,717,647	76,749,873	72,218,090	189,737,933	187,935,737
Restatement	(24,942,452)	(3,169,427)	(5,847,925)	(1,069,154)	(30,790,377)	(4,238,581)
Beginning of year - July 1, as restated	88,045,608	112,548,220	70,901,948	71,148,936	158,947,556	183,697,156
End of year - June 30	\$ 86,710,881	\$ 112,988,060	\$ 76,057,213	\$ 76,749,873	\$ 162,768,094	\$ 189,737,933

**Governmental Activities.** Net position decreased in the City’s governmental activities this fiscal year by \$1,334,727. Key elements of this decrease are as follows:

- Total revenues increased \$636,533 or 1.46% while expenditures increased \$5,152,006 or 13.49%.
- The City paid \$1,338,750 in an economic development grant to Amazon. Amazon is investing \$100 million in assets in the City.
- Pension expenses of \$4,739,886 as required by Governmental Accounting Standards Board.
- Modest increases to property taxes of 2.33% and sales tax of 3.40%.

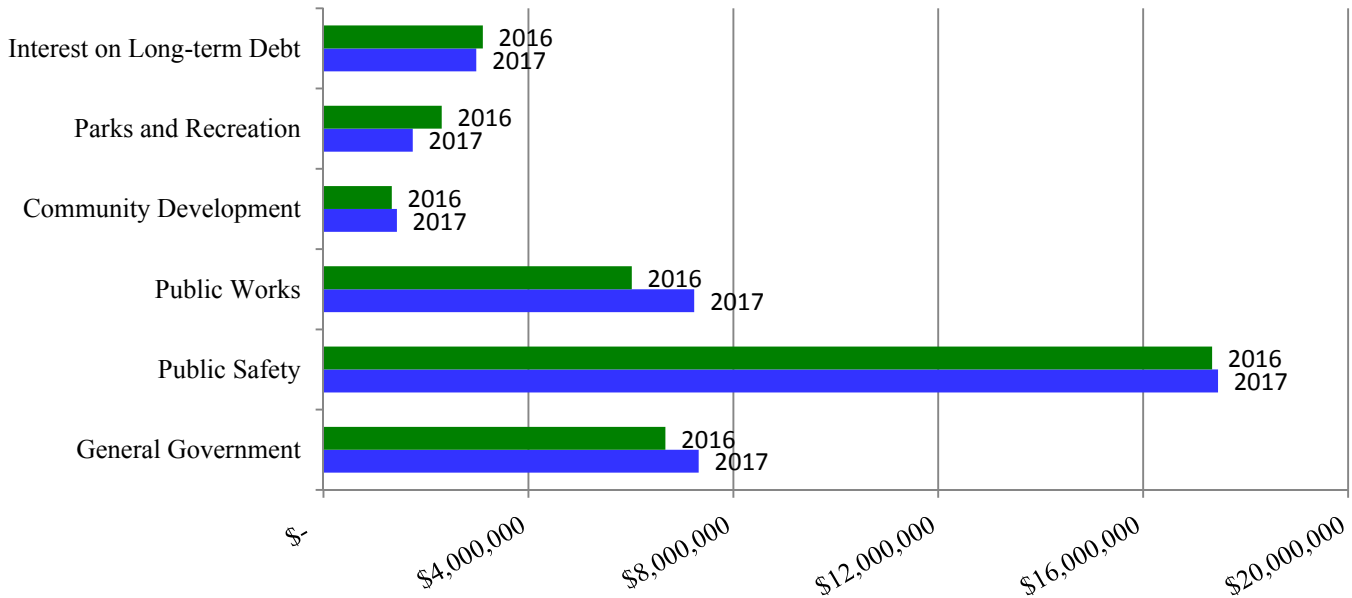
### Revenues by Source - Governmental Activities



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 \$25,379,013, while sales taxes total \$9,561,175. The third largest source of revenue is other taxes. The City received grants from the United States Department of Housing and Urban Development, the United States Department of Transportation, the United States Department of Health and Human Services, NC Department of Transportation, NC Housing Finance Agency and the NC Department of Commerce. The City also received property donations totaling \$351,162. This donated property came from developers donating \$171,752 in sidewalks and \$179,410 in streets.



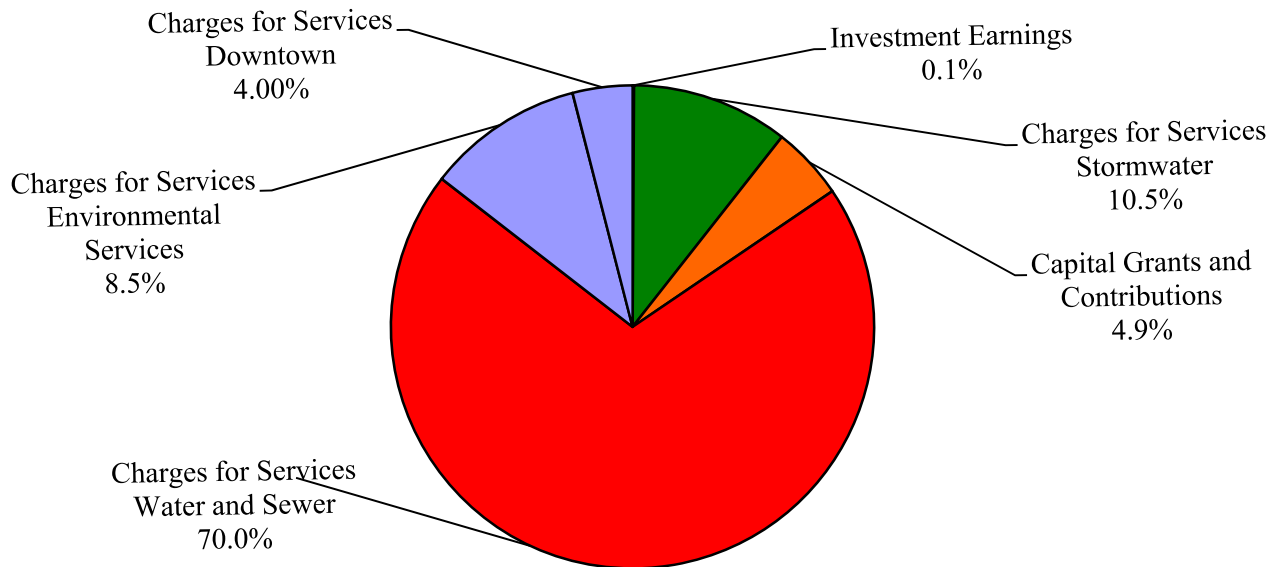
## Government Activities Expenses



**Business-Type Activities.** Business-type activities increased the City of Kannapolis' net position by \$5,155,265. Key elements of this increase are as follows:

- Revenue in the business-type activities continue to cover operating expenses. The City has worked to match revenue with expenses and decrease dependence on transfers from other funds.
- Operating revenue increased \$1,892,926 or 8.82% while expenditures decreased \$188,637 or .93%.
- Both the Water and Sewer Fund and Stormwater Fund had rate increases in fiscal year 2018.
- Capital contributions were \$1,653,470 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 \$9,608,967, while total fund balance reached \$18,801,072. The City currently has an available fund balance of 36% of General Fund expenditures and transfers out, while total fund balance represents 40% 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 has developed a spending plan utilizing more cash payments for capital projects or other capital assets.

At June 30, 2018, the governmental funds of the City of Kannapolis reported a combined fund balance of \$30,678,160 with a net increase in fund balance of \$10,987,236. The City had \$1,371,902 of expenditures over revenues. The City transferred out \$4,712,995 to capital project funds, Transit Tax Fund, Environmental Services Fund and the Downtown fund.

### **General Fund Budgetary Highlights**

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

Total amendments to the General Fund increased revenues, expenditures and other financing sources (uses) by \$7,106,928, or 16.88%. The City appropriated fund balance of \$3.5 million during the year to purchase the Pumper Truck for the Fire Department, \$1.3 million for economic development payment to Amazon and a transfer to Irish Buffalo Capital Project Fund. A \$1.8 million budget amendment was for an installment purchase agreement.

The total variance from the final budget numbers to the actual results for revenues that the City received was \$1,470,881, or 3.49%, more than the budgeted amount. Property tax revenue and sales tax revenue were over budget by \$435,224 and \$381,175, respectively. Total revenue increased by 1.68% from fiscal year 2017.

The total variance from the final budget numbers to the actual results for expenditures totaled \$2,746,668, or 5.95%, 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, 2018 was (\$25,870,332), compared to \$5,054,361 at June 30, 2017. See the detailed explanation of this decrease 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, 2018 totaled \$309,380,702 (net of accumulated depreciation). This is an increase from June 30, 2017 of \$21,723,799. These assets include land, buildings, improvements, machinery and equipment, and infrastructure.

Major capital asset transactions during the year included the following:

- \$1,967,422 for a ladder truck and a pumper truck for the Fire Department
- \$3,050,946 for Downtown Streetscape Project
- \$4,752,390 for renovations for College Station
- \$891,473 for purchase of College Station
- \$3,600,364 for the Davidson Road Water and Sudbury Rowan Sewer Main
- \$5,664,657 for Downtown Water and Sewer Infrastructure Projects

### City of Kannapolis' Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 15,004,028	\$ 14,985,101	\$ 6,509,936	\$ 6,401,212	\$ 21,513,964	\$ 21,386,313
Construction in progress	3,240,320	1,999,657	41,621,309	22,043,672	44,861,629	24,043,329
Rowan County water rights	-	-	2,411,100	2,411,100	2,411,100	2,411,100
Buildings and systems	66,069,032	66,007,898	27,810,300	26,943,128	93,879,332	92,951,026
Improvements other than buildings	7,859,542	7,295,336	97,082	-	7,956,624	7,295,336
Machinery and equipment	19,476,687	17,940,162	6,497,454	4,941,072	25,974,141	22,881,234
Infrastructure	<u>155,868,942</u>	<u>155,517,780</u>	<u>101,021,411</u>	<u>98,656,456</u>	<u>256,890,353</u>	<u>254,174,236</u>
Total	267,518,551	263,745,934	185,968,592	161,396,640	453,487,143	425,142,574
Less accumulated depreciation and amortization	<u>92,054,340</u>	<u>88,709,615</u>	<u>52,052,101</u>	<u>48,776,056</u>	<u>144,106,441</u>	<u>137,485,671</u>
Capital assets, net	<u>\$ 175,464,211</u>	<u>\$ 175,036,319</u>	<u>\$133,916,491</u>	<u>\$ 112,620,584</u>	<u>\$ 309,380,702</u>	<u>\$ 287,656,903</u>

For additional information on the City's capital assets, see pages 54 through 58 of this report.

## Long-Term Debt

At the end of the current fiscal year, the City of Kannapolis had total debt outstanding of \$152,392,924. Of this amount, \$49,112,298 represents bonds secured solely by water and sewer revenues. (i.e. revenue bonds). The City also had \$19,094,372 in outstanding installment obligations and \$84,186,254 in outstanding limited obligation bonds. The City maintained its credit ratings this year. 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Notes payable	\$ 10,283,070	\$ 8,001,829	\$ 8,811,302	\$ 5,279,891	\$ 19,094,372	\$ 13,281,720
Revenue bonds	-	-	49,112,298	27,333,325	49,112,298	27,333,325
Special obligation bonds	-	-	9,532,000	10,266,000	9,532,000	10,266,000
Limited obligation bonds	59,754,254	51,970,477	14,900,000	-	74,654,254	51,970,477
Total	<u>\$ 70,037,324</u>	<u>\$ 59,972,306</u>	<u>\$ 82,355,600</u>	<u>\$ 42,879,216</u>	<u>\$ 152,392,924</u>	<u>\$ 102,851,522</u>

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, 2018, the legal debt limit for the City totaled approximately \$218,303,200. 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 74 through 87 of this report.

## Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Cabarrus County in June 2018 was 3.7%, which is a decrease from a rate of 3.9% in June 2017. A portion of the City (18%) is located in Rowan County. The unemployment rate in Rowan County decreased to 4.0% in June 2018, compared to 4.3% in June 2017.
- Population in the City has increased from 44,104 in 2009 to 48,806 in 2018.

All of these factors were considered in preparing the City of Kannapolis' budget for fiscal year 2019. City council did not increase the tax rate as it remains at \$.63/\$100 of valuation for Fiscal Year 2019. Four Capital Projects were approved in the General Fund with a total cost of \$5,148,000 and a budget impact of \$185,900 for the 2019 Fiscal Budget. Fifteen new positions were included in the Fiscal Year budget increasing the citywide employment figure to 364 Full-Time Employees. The General Fund budget increased \$2,328,000, or 5.29% from Fiscal year 2018 budget. The increased revenue is largely from two sources, Sales tax and Property taxes.

The Fiscal Year 2019 Water and Sewer Budget Increased \$834,800, or 4.76% from Fiscal Year 2018 budget. No rate increase for water and sewer is found in Fiscal Year 2019 budget. In Fiscal Year 2018, the Water & Sewer Budget increased 7.94%, or \$1,289,200 from the previous year's budget. The Water & Sewer Fund includes one Capital Project for FY 19, the Irish Buffalo Sewer Line. This project is paid with cash from a previous revenue bond and fund balance.

The Stormwater Fund budget for fiscal year 2019 totaled \$3,023,000 which represents a 0.97% increase, or \$29,000, increase from the 2018 budget. The Stormwater fee was not increased for FY 2018, as prescribed in the City's 10 Year Financial Plan. This is the fourth year the Stormwater Fund has been self-sufficient. The 2019 Fiscal Year budget include \$67,236 in capital purchases made through cash payments. This fund includes cost appropriations related to a federally mandated educational program and annual maintenance of the City's storm drainage system.

The Fiscal Year 2019 budget for the Environmental Fund increased 8.62%, or \$305,200 over previous year's budget. A \$3.75 rate increase was made in FY 2019, as prescribed in the City's 10 Year Financial Plan. FY 2019 is the second year for the City to complete yard waste with city staff, as opposed to the service being completed through a contract with a private company.

Fiscal Year 2019 is the fourth year for the Downtown Fund. The fund increased 169.76%, or \$3,537,300 over previous year's budget. This massive increase is due to the start of two large capital projects, the Sports & Entertainment Venue and the Parking Deck for the Vita Project. FY 19 will have the first debt service payments for these projects. These debt service payments are funded primarily through a transfer from the General Fund, but future budgets will include lease payment for the stadium, Cabarrus County contributions, and other revenue streams.

### **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.

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## **Basic Financial Statements**

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

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CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION  
JUNE 30, 2018

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 16,480,445	\$ 10,863,708	\$ 27,344,153
Taxes receivable	422,416	-	422,416
Accounts receivable, net	225,781	4,511,518	4,737,299
Due from other governments	2,351,281	283,916	2,635,197
Cash and cash equivalents, restricted	17,409,504	26,324,501	43,734,005
Prepaid items	127,988	7,721	135,709
Total current assets	<u>37,017,415</u>	<u>41,991,364</u>	<u>79,008,779</u>
Non-current assets:			
Intangible asset, net of amortization	-	1,639,548	1,639,548
Non-depreciable assets	18,244,348	48,131,245	66,375,593
Other capital assets, net of depreciation	157,219,863	84,145,698	241,365,561
Total non-current assets	<u>175,464,211</u>	<u>133,916,491</u>	<u>309,380,702</u>
Total assets	<u>212,481,626</u>	<u>175,907,855</u>	<u>388,389,481</u>
<b>Deferred Outflows of Resources:</b>			
OPEB deferrals	854,431	206,032	1,060,463
Pension deferrals	3,287,092	660,400	3,947,492
Total deferred outflows of resources	<u>4,141,523</u>	<u>866,432</u>	<u>5,007,955</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	2,531,201	1,791,598	4,322,799
Accrued expenses	3,104,433	468,434	3,572,867
Accrued interest	1,076,105	753,912	1,830,017
Current compensated absences	890,173	134,036	1,024,209
Current maturities of long-term debt	5,383,999	5,331,807	10,715,806
Liabilities to be paid from restricted assets	-	2,758,703	2,758,703
Total current liabilities	<u>12,985,911</u>	<u>11,238,490</u>	<u>24,224,401</u>

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



CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION  
JUNE 30, 2018

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Non-current liabilities:			
Net pension liability - LGERS	3,716,450	871,760	4,588,210
Total pension liability - SSA	5,573,086	1,307,268	6,880,354
Total OPEB liability	37,565,624	9,058,377	46,624,001
Non-current compensated absences	296,724	44,678	341,402
Long-term debt	64,653,325	77,023,793	141,677,118
Total non-current liabilities	<u>111,805,209</u>	<u>88,305,876</u>	<u>200,111,085</u>
Total liabilities	<u>124,791,120</u>	<u>99,544,366</u>	<u>224,335,486</u>
<b>Deferred Inflows of Resources:</b>			
Prepaid taxes	10,905	-	10,905
OPEB deferrals	4,595,918	1,108,235	5,704,153
Pension deferrals	514,325	64,473	578,798
Total deferred inflows of resources	<u>5,121,148</u>	<u>1,172,708</u>	<u>6,293,856</u>
<b>Net Position:</b>			
Net investment in capital assets	116,404,978	101,927,545	218,332,523
Restricted - stabilization for state statute	2,306,762	-	2,306,762
Restricted - streets	332,330	-	332,330
Restricted - community development	6,610,599	-	6,610,599
Restricted - public safety	41,601	-	41,601
Unrestricted	<u>(38,985,389)</u>	<u>(25,870,332)</u>	<u>(64,855,721)</u>
Total net position	<u>\$ 86,710,881</u>	<u>\$ 76,057,213</u>	<u>\$ 162,768,094</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, 2018

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 10,748,242	\$ 155,251	\$ 974,674	\$ 1,523,585
Public safety	18,040,320	160,283	38,611	-
Public works	6,749,177	73,831	-	1,315,990
Community development	1,684,630	149,573	71,154	322,372
Parks and recreation	2,782,424	444,154	-	65,566
Interest on long-term debt	3,328,118	-	-	-
Total governmental activities	<u>43,332,911</u>	<u>983,092</u>	<u>1,084,439</u>	<u>3,227,513</u>
<b>Business-Type Activities:</b>				
Water and sewer	14,891,106	17,032,109	-	1,653,470
Stormwater	2,112,661	2,940,992	-	-
Environmental services	3,813,820	2,533,698	-	-
Downtown	1,639,030	840,734	100,000	-
Total business-type activities	<u>22,456,617</u>	<u>23,347,533</u>	<u>100,000</u>	<u>1,653,470</u>
Total primary government	<u>\$ 65,789,528</u>	<u>\$ 24,330,625</u>	<u>\$ 1,184,439</u>	<u>\$ 4,880,983</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, 2018**

	<b>Net (Expense) Revenue and Changes in Net Position</b>		
	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Functions/Programs</b>			
<b>Primary Government:</b>			
<b>Governmental Activities:</b>			
General government	\$ (8,094,732)	\$ -	\$ (8,094,732)
Public safety	(17,841,426)	-	(17,841,426)
Public works	(5,359,356)	-	(5,359,356)
Community development	(1,141,531)	-	(1,141,531)
Parks and recreation	(2,272,704)	-	(2,272,704)
Interest on long-term debt	(3,328,118)	-	(3,328,118)
Total governmental activities	(38,037,867)	-	(38,037,867)
<b>Business-Type Activities:</b>			
Water and sewer	-	3,794,473	3,794,473
Stormwater	-	828,331	828,331
Environmental services	-	(1,280,122)	(1,280,122)
Downtown	-	(698,296)	(698,296)
Total business-type activities	-	2,644,386	2,644,386
Total primary government	(38,037,867)	2,644,386	(35,393,481)
<b>General Revenues:</b>			
Taxes:			
Ad valorem taxes	25,379,013	-	25,379,013
Sales tax	9,561,175	-	9,561,175
Other taxes and licenses	693,116	-	693,116
Franchise tax	2,716,262	-	2,716,262
Unrestricted intergovernmental revenues	206,047	-	206,047
Investment earnings	348,727	309,679	658,406
Total general revenues, not including transfers	38,904,340	309,679	39,214,019
Transfers	(2,201,200)	2,201,200	-
Total general revenues and transfers	36,703,140	2,510,879	39,214,019
Change in net position	(1,334,727)	5,155,265	3,820,538
<b>Net Position:</b>			
Beginning of year - July 1	112,988,060	76,749,873	189,737,933
Restatement	(24,942,452)	(5,847,925)	(30,790,377)
Beginning of year - July 1, as restated	88,045,608	70,901,948	158,947,556
End of year - June 30	\$ 86,710,881	\$ 76,057,213	\$ 162,768,094

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

CITY OF KANNAPOLIS, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2018

	Major Fund		Nonmajor	Total
	General Fund	Fire Station Improvements	Other Governmental Funds	
<b>Assets:</b>				
Cash and cash equivalents	\$ 14,828,218	\$ 498,241	\$ 1,153,986	\$ 16,480,445
Taxes receivable	422,416	-	-	422,416
Accounts receivable	51,769	-	-	51,769
Long-term receivable	-	-	174,012	174,012
Due from other governments	2,269,143	492	81,646	2,351,281
Cash and cash equivalents - restricted	6,776,785	10,418,921	213,798	17,409,504
Prepaid items	127,988	-	-	127,988
Total assets	<u>\$ 24,476,319</u>	<u>\$ 10,917,654</u>	<u>\$ 1,623,442</u>	<u>\$ 37,017,415</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 1,867,193	\$ 498,733	\$ 165,275	\$ 2,531,201
Accrued liabilities	3,104,433	-	-	3,104,433
Total liabilities	<u>4,971,626</u>	<u>498,733</u>	<u>165,275</u>	<u>5,635,634</u>
<b>Deferred Inflows of Resources:</b>				
Prepaid taxes	10,905	-	-	10,905
Property taxes receivable	422,416	-	-	422,416
Other unavailable revenue	270,300	-	-	270,300
Total deferred inflows of resources	<u>703,621</u>	<u>-</u>	<u>-</u>	<u>703,621</u>
<b>Fund Balances:</b>				
Non-spendable:				
Prepaid items	127,988	-	-	127,988
Restricted:				
Stabilization for state statute	2,050,612	492	255,658	2,306,762
Restricted for community development	6,402,854	-	766,915	7,169,769
Restricted for streets	332,330	-	-	332,330
Restricted for public safety	41,601	10,418,921	-	10,460,522
Committed	236,720	-	435,594	672,314
Unassigned	9,608,967	(492)	-	9,608,475
Total fund balances	<u>18,801,072</u>	<u>10,418,921</u>	<u>1,458,167</u>	<u>30,678,160</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 24,476,319</u>	<u>\$ 10,917,654</u>	<u>\$ 1,623,442</u>	<u>\$ 37,017,415</u>

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

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	<u><b>Total Governmental Funds</b></u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total fund balance - governmental funds	\$ 30,678,160
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	175,464,211
Net pension liability	(3,716,450)
Total pension liability	(5,573,086)
Total OPEB liability	(37,565,624)
Deferred outflows - pension	3,287,092
Deferred outflows - OPEB	854,431
Deferred inflows - pension	(514,325)
Deferred inflows - OPEB	(4,595,918)
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.	692,716
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	(70,037,324)
Accrued interest	(1,076,105)
Compensated absences	<u>(1,186,897)</u>
Net position of governmental activities	<u>\$ 86,710,881</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, 2018

	Major Fund		Nonmajor Funds	Total Governmental Funds
	General Fund	Fire Station Improvements	Other Governmental Funds	
<b>Revenues:</b>				
Ad valorem taxes	\$ 25,435,224	\$ -	\$ -	\$ 25,435,224
Other taxes and licenses	9,967,045	-	200,846	10,167,891
Unrestricted intergovernmental	3,008,709	-	-	3,008,709
Restricted intergovernmental	2,868,861	-	402,788	3,271,649
Sales and services	993,624	-	-	993,624
Investment earnings	328,598	20,114	15	348,727
Miscellaneous	1,040,302	-	-	1,040,302
Total revenues	<u>43,642,363</u>	<u>20,114</u>	<u>603,649</u>	<u>44,266,126</u>
<b>Expenditures:</b>				
Current:				
General government	10,454,830	-	-	10,454,830
Public safety	17,878,070	-	-	17,878,070
Public works	4,544,122	-	-	4,544,122
Community development	795,018	-	889,612	1,684,630
Capital outlay	-	981,935	201,481	1,183,416
Parks and recreation	2,408,362	-	-	2,408,362
Debt service:				
Principal retirement	4,324,097	-	50,000	4,374,097
Interest and fees	3,049,085	61,416	-	3,110,501
Total expenditures	<u>43,453,584</u>	<u>1,043,351</u>	<u>1,141,093</u>	<u>45,638,028</u>
Revenues over (under) expenditures	<u>188,779</u>	<u>(1,023,237)</u>	<u>(537,444)</u>	<u>(1,371,902)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	1,714,319	-	797,476	2,511,795
Transfers (out)	(2,998,676)	-	(1,714,319)	(4,712,995)
Issuance of long-term debt	1,810,338	11,100,000	1,650,000	14,560,338
Total other financing sources (uses)	<u>525,981</u>	<u>11,100,000</u>	<u>733,157</u>	<u>12,359,138</u>
Net change in fund balances	714,760	10,076,763	195,713	10,987,236
<b>Fund Balances:</b>				
Beginning of year - July 1	<u>18,086,312</u>	<u>342,158</u>	<u>1,262,454</u>	<u>19,690,924</u>
End of year - June 30	<u>\$ 18,801,072</u>	<u>\$ 10,418,921</u>	<u>\$ 1,458,167</u>	<u>\$ 30,678,160</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, 2018

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)	\$ 10,987,236
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.	5,263,131
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(4,787,978)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	1,058,141
Benefit payments and administrative costs for the SSA are not included on the Statement of Activities	581,730
OPEB benefit payments and administrative costs in the current fiscal year are not included on the Statement of Activities	854,431
The sale of capital assets is reported as a revenue in the governmental funds statement without subtracting the net book value of the capital assets sold.	(47,261)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(66,742)
Expenses related to accrued interest, and compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(372,511)
OPEB expense	(2,981,701)
Pension expenses reported in the Statement of Activities do not require the use of current financial resources, and, therefore are not reported as expenditures in the governmental funds.	(1,758,185)
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.	121,223
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.	(14,560,338)
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>4,374,097</u>
Total change in net position of governmental activities (Exhibit B)	<u>\$ (1,334,727)</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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/Under</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Ad valorem taxes	\$ 25,000,000	\$ 25,000,000	\$ 25,435,224	\$ 435,224
Other taxes and licenses	9,565,000	9,565,000	9,967,045	402,045
Unrestricted intergovernmental	2,964,000	2,964,000	3,008,709	44,709
Restricted intergovernmental	2,806,000	2,806,000	2,868,861	62,861
Sales and services	811,000	811,000	993,624	182,624
Investment earnings	200,000	200,000	328,598	128,598
Miscellaneous	746,000	825,482	1,040,302	214,820
Total revenues	<u>42,092,000</u>	<u>42,171,482</u>	<u>43,642,363</u>	<u>1,470,881</u>
<b>Expenditures:</b>				
Current:				
General government	7,813,005	11,372,486	10,454,830	917,656
Public safety	16,016,484	18,340,358	17,878,070	462,288
Public works	4,544,280	5,124,630	4,544,122	580,508
Community development	889,432	910,932	795,018	115,914
Parks and recreation	1,990,345	2,581,840	2,408,362	173,478
Debt service:				
Principal retirement	4,468,833	4,468,833	4,324,097	144,736
Interest and fees	3,760,421	3,401,173	3,049,085	352,088
Total expenditures	<u>39,482,800</u>	<u>46,200,252</u>	<u>43,453,584</u>	<u>2,746,668</u>
Revenues over (under) expenditures	<u>2,609,200</u>	<u>(4,028,770)</u>	<u>188,779</u>	<u>4,217,549</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	1,714,319	1,714,319	-
Transfers (out)	(2,609,200)	(2,998,676)	(2,998,676)	-
Installment financing issued	-	1,810,338	1,810,338	-
Appropriated fund balance	-	3,502,789	-	(3,502,789)
Total other financing sources (uses)	<u>(2,609,200)</u>	<u>4,028,770</u>	<u>525,981</u>	<u>(3,502,789)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>714,760</u>	<u>\$ 714,760</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			<u>18,086,312</u>	
End of year - June 30			<u>\$ 18,801,072</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, 2018

	Business-Type Activities				Total Business-Type Activities
	Major Enterprise Funds				
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	Downtown Kannapolis Fund	
<b>Assets:</b>					
Current assets:					
Cash and investments	\$ 7,976,738	\$ 2,152,672	\$ 734,298	\$ -	\$ 10,863,708
Accounts receivable, net	3,318,927	512,162	621,458	58,971	4,511,518
Due from other governments	160,332	10,583	13,977	99,024	283,916
Cash and investments, restricted	15,484,682	6,490,510	-	4,349,309	26,324,501
Prepaid assets	-	-	4,537	3,184	7,721
Total current assets	<u>26,940,679</u>	<u>9,165,927</u>	<u>1,374,270</u>	<u>4,510,488</u>	<u>41,991,364</u>
Non-current assets:					
Intangible asset, net of amortization	1,639,548	-	-	-	1,639,548
Capital assets:					
Non-depreciable assets	30,702,026	554,498	-	16,874,721	48,131,245
Other capital assets net of depreciation	73,521,177	4,878,157	917,483	4,828,881	84,145,698
Total capital assets	<u>104,223,203</u>	<u>5,432,655</u>	<u>917,483</u>	<u>21,703,602</u>	<u>132,276,943</u>
Total non-current assets	<u>105,862,751</u>	<u>5,432,655</u>	<u>917,483</u>	<u>21,703,602</u>	<u>133,916,491</u>
Total assets	<u>132,803,430</u>	<u>14,598,582</u>	<u>2,291,753</u>	<u>26,214,090</u>	<u>175,907,855</u>
<b>Deferred Outflows of Resources:</b>					
OPEB deferrals	142,405	48,478	15,149	-	206,032
Pension deferrals	451,853	173,790	34,757	-	660,400
Total deferred outflows of resources	<u>594,258</u>	<u>222,268</u>	<u>49,906</u>	<u>-</u>	<u>866,432</u>
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	620,130	39,304	236,339	895,825	1,791,598
Accrued expenses	82,573	24,126	7,817	353,918	468,434
Accrued interest	632,993	116,261	4,658	-	753,912
Current portion of compensated absences	107,317	22,565	4,154	-	134,036
Current maturities of long-term debt	2,800,665	940,627	206,290	1,384,225	5,331,807
Liabilities to be paid from restricted assets	2,758,703	-	-	-	2,758,703
Total current liabilities	<u>7,002,381</u>	<u>1,142,883</u>	<u>459,258</u>	<u>2,633,968</u>	<u>11,238,490</u>
Non-current liabilities:					
Net pension liability - LGERS	596,467	229,411	45,882	-	871,760
Total pension liability - SSA	894,446	344,018	68,804	-	1,307,268
Total OPEB liability	6,260,937	2,131,383	666,057	-	9,058,377
Compensated absences	35,772	7,521	1,385	-	44,678
Long-term debt	48,271,722	8,412,479	770,155	19,569,437	77,023,793
Total non-current liabilities	<u>56,059,344</u>	<u>11,124,812</u>	<u>1,552,283</u>	<u>19,569,437</u>	<u>88,305,876</u>
Total liabilities	<u>63,061,725</u>	<u>12,267,695</u>	<u>2,011,541</u>	<u>22,203,405</u>	<u>99,544,366</u>
<b>Deferred Inflows of Resources:</b>					
OPEB deferrals	765,986	260,761	81,488	-	1,108,235
Pension deferrals	44,114	16,966	3,393	-	64,473
Total deferred inflows of resources	<u>810,100</u>	<u>277,727</u>	<u>84,881</u>	<u>-</u>	<u>1,172,708</u>
<b>Net Position:</b>					
Net investment in capital assets	69,885,199	9,570,059	(58,962)	22,531,249	101,927,545
Unrestricted	<u>(359,336)</u>	<u>(7,294,631)</u>	<u>304,199</u>	<u>(18,520,564)</u>	<u>(25,870,332)</u>
Total net position	<u>\$ 69,525,863</u>	<u>\$ 2,275,428</u>	<u>\$ 245,237</u>	<u>\$ 4,010,685</u>	<u>\$ 76,057,213</u>

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, 2018

	Business-Type Activities				
	Major Enterprise Funds				Total Business-Type Activities
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	Downtown Kannapolis Fund	
<b>Operating Revenues:</b>					
Charges for services	\$ 15,345,180	\$ 2,940,992	\$ 2,446,722	\$ 840,734	\$ 21,573,628
Water and sewer taps	1,164,349	-	-	-	1,164,349
Other operating revenues	522,580	-	86,976	100,000	709,556
Total operating revenues	<u>17,032,109</u>	<u>2,940,992</u>	<u>2,533,698</u>	<u>940,734</u>	<u>23,447,533</u>
<b>Operating Expenses:</b>					
Administration	1,161,031	-	-	-	1,161,031
Distribution	2,155,422	-	-	-	2,155,422
Filter plant	2,730,598	-	-	-	2,730,598
General services	1,616,000	-	-	606,925	2,222,925
Contracted services	-	-	-	256,474	256,474
Sewage treatment	3,043,249	-	-	-	3,043,249
Stormwater	-	1,755,049	-	-	1,755,049
Environmental services	-	-	3,591,701	-	3,591,701
Depreciation and amortization	2,577,838	214,352	204,960	100,146	3,097,296
Total operating expenses	<u>13,284,138</u>	<u>1,969,401</u>	<u>3,796,661</u>	<u>963,545</u>	<u>20,013,745</u>
Operating income (loss)	<u>3,747,971</u>	<u>971,591</u>	<u>(1,262,963)</u>	<u>(22,811)</u>	<u>3,433,788</u>
<b>Non-Operating Revenues (Expenses):</b>					
Gain (Loss) on disposal of assets	(11,820)	21,749	-	-	9,929
Interest earned on investments	224,673	35,568	-	49,438	309,679
Interest and fees on long-term debt	(1,595,148)	(165,009)	(17,159)	(675,485)	(2,452,801)
Total non-operating revenues (expenses)	<u>(1,382,295)</u>	<u>(107,692)</u>	<u>(17,159)</u>	<u>(626,047)</u>	<u>(2,133,193)</u>
Income (loss) before capital contributions and transfers	<u>2,365,676</u>	<u>863,899</u>	<u>(1,280,122)</u>	<u>(648,858)</u>	<u>1,300,595</u>
<b>Capital Contributions</b>	<u>1,653,470</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,653,470</u>
<b>Transfers:</b>					
Transfers (out)	(114,290)	-	-	-	(114,290)
Transfers in	-	-	1,109,290	1,206,200	2,315,490
Total transfers	<u>(114,290)</u>	<u>-</u>	<u>1,109,290</u>	<u>1,206,200</u>	<u>2,201,200</u>
Change in net position	<u>3,904,856</u>	<u>863,899</u>	<u>(170,832)</u>	<u>557,342</u>	<u>5,155,265</u>
<b>Net Position:</b>					
Beginning of year - July 1	69,355,581	2,830,202	1,110,747	3,453,343	76,749,873
Restatement	(3,734,574)	(1,418,673)	(694,678)	-	(5,847,925)
Beginning of year - July 1, as restated	<u>65,621,007</u>	<u>1,411,529</u>	<u>416,069</u>	<u>3,453,343</u>	<u>70,901,948</u>
End of year - June 30	<u>\$ 69,525,863</u>	<u>\$ 2,275,428</u>	<u>\$ 245,237</u>	<u>\$ 4,010,685</u>	<u>\$ 76,057,213</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, 2018

	Business-Type Activities				
	Major Enterprise Funds				Total Business-Type Activities
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	Downtown Kannapolis Fund	
<b>Cash Flows from Operating Activities:</b>					
Cash received from customers	\$ 16,727,321	\$ 2,889,465	\$ 2,397,878	\$ 790,729	\$ 22,805,393
Cash paid for goods and services	(5,476,096)	(814,493)	(3,428,046)	(192,194)	(9,910,829)
Cash paid to employees	(2,540,170)	(699,945)	(110,405)	-	(3,350,520)
Net cash provided (used) by operating activities	<u>8,711,055</u>	<u>1,375,027</u>	<u>(1,140,573)</u>	<u>598,535</u>	<u>9,544,044</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>					
Transfers (to) from other funds	(114,290)	-	1,109,290	1,206,200	2,201,200
Net cash provided (used) by non-capital financing activities	<u>(114,290)</u>	<u>-</u>	<u>1,109,290</u>	<u>1,206,200</u>	<u>2,201,200</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Proceeds from issuance of long-term debt	23,877,000	-	1,079,962	11,421,662	36,378,624
Acquisition of capital assets and capital projects	(10,572,989)	(338,262)	(840,183)	(11,020,259)	(22,771,693)
Principal paid on long-term debt	(2,467,715)	6,402,992	(103,517)	(734,000)	3,097,760
Interest and fees paid on long-term debt	(1,287,487)	(57,796)	(12,501)	(525,604)	(1,883,388)
Net cash provided (used) by capital and related financing activities	<u>9,548,809</u>	<u>6,006,934</u>	<u>123,761</u>	<u>(858,201)</u>	<u>14,821,303</u>
<b>Cash Flows from Investing Activities:</b>					
Interest on investments	224,673	35,568	-	49,438	309,679
Net increase (decrease) in cash and cash equivalents	18,370,247	7,417,529	92,478	995,972	26,876,226
<b>Cash and Cash Equivalents:</b>					
Beginning of year - July 1	5,091,173	1,225,653	641,820	3,353,337	10,311,983
End of year - June 30	<u>\$ 23,461,420</u>	<u>\$ 8,643,182</u>	<u>\$ 734,298</u>	<u>\$ 4,349,309</u>	<u>\$ 37,188,209</u>
<b>Reconciliation of Operating Income (Loss) to Provided (Used) By Operating Activities:</b>					
Operating income (loss)	\$ 3,747,971	\$ 971,591	\$ (1,262,963)	\$ (22,811)	\$ 3,433,788
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	2,577,838	214,352	204,960	100,146	3,097,296
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(328,061)	(51,527)	(135,820)	(150,005)	(665,413)
(Increase) decrease in prepaids	-	-	(4,537)	(3,184)	(7,721)
Increase (decrease) in total pension liability	894,446	344,018	68,804	-	1,307,268
Increase (decrease) in net pension liability	(1,136,806)	(257,729)	-	-	(1,394,535)
Increase (decrease) in deferred inflows of resources for pensions	(68,874)	(15,144)	3,393	-	(80,625)
(Increase) decrease in deferred outflows of resources for pensions	285,120	36,531	(34,757)	-	286,894
Increase (decrease) in deferred inflows for OPEB	765,986	260,761	81,488	-	1,108,235
(Increase) decrease in deferred outflows for OPEB	(142,405)	(48,478)	(15,149)	-	(206,032)
Increase (decrease) in accounts payable and accrued liabilities	2,361,603	12,239	(17,371)	674,389	3,030,860
Increase (decrease) in other post-employment benefits	(269,036)	(91,587)	(28,621)	-	(389,244)
Increase (decrease) in customer deposits	23,273	-	-	-	23,273
Net cash provided (used) by operating activities	<u>\$ 8,711,055</u>	<u>\$ 1,375,027</u>	<u>\$ (1,140,573)</u>	<u>\$ 598,535</u>	<u>\$ 9,544,044</u>
<b>Summary of Non-Cash Activities:</b>					
Capital asset contributions	<u>\$ 1,653,470</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,653,470</u>

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

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# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### 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 except for the interfund services provided and used which are not eliminated in the process of consolidation. 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. Separate statements for each fund category – *governmental and proprietary* – 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, 2018

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.

**Fire Station Improvements.** This fund is used to account for funds used for the construction of Fire Stations Two and Three.

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 the transit system for the City.

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

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

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

**Village Park Phase 3 Improvements.** This fund is used to account for the upgrades to Village Park including a double decker carousel.

**Bethpage Sidewalks.** This fund is used to account for sidewalk improvements on Bethpage Road.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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: Revenue Bonds 2014 Fund, Mooresville Road Water Main Fund, Davidson Road Water and Sudbury Road Sewer Main, and Downtown Water and Sewer Infrastructure. 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 a separate stormwater capital project fund for accounting purposes: Downtown Stormwater Fund. 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.

**Downtown Kannapolis Fund.** This fund is used to account for the City's Downtown operations. The City maintains four separate downtown capital project funds for accounting purposes: Demonstration Project Parking Deck, Sports and Entertainment Venue, Downtown Streetscape Project, and College Station. For financial reporting purposes, these funds have been consolidated into the Downtown Fund.

### C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

*Government-Wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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 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.



# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### **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. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) government money market fund, is measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

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.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### 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 General Fund 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 and Other Governmental 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. The federal asset forfeiture funds of the General Fund are restricted assets for equitable sharing with participating law enforcement agencies. 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	\$ 5,843,684
Unspent debt proceeds	559,170
Federal asset forfeiture funds	41,601
Powell Bill	<u>332,330</u>
Total	<u>6,776,785</u>

#### Other Governmental Funds:

Unspent debt proceeds restricted for capital outlay	10,418,921
HUD Section 108 - required debt service reserve	<u>213,798</u>
Total	<u>10,632,719</u>

#### Enterprise Funds:

Revenue Bonds 2014	666,720
Revenue Bonds 2017	1,176,907
Revenue Bonds 2018	13,251,208
Stormwater Downtown	6,490,510
Downtown Fund Loan Proceeds	1,178,171
Downtown ST Streetscape	1,378,004
Downtown College Station	<u>1,793,134</u>
Unspent debt proceeds	25,934,654
Customer deposits	<u>389,847</u>
Total	<u>26,324,501</u>
Total restricted cash	<u>\$ 43,734,005</u>

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### **Ad Valorem Taxes Receivable**

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes on property other than motor vehicles on July 1<sup>st</sup>, the beginning of the fiscal year. The taxes are due on September 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values as of January 1, 2017. 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.

### **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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

### **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 received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are reported at acquisition value.

All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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, 2018

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
Infrastructure	50 years
Vehicles and service equipment	5 years
Furniture and equipment	7 years

### 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 two items that meet this criterion – pension and OPEB related deferrals. 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 pension and OPEB related deferrals.

### 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, 2018

### **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.

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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. \$559,170 is restricted in the General Fund for unspent debt proceeds and \$5,843,684 a required debt service reserve related to NCRC project. \$213,798 in the CDBG Fund is restricted for HUD Section 108 Loan payment. \$553,117 in the Transit Tax Fund is restricted by the revenue source for the development of a transit system for the City.

*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. \$41,601 is restricted in the General Fund for the balance of Federal Asset Forfeiture funds. \$10,418,921 is restricted in the Fire Station Improvements Fund for unspent debt proceeds.

Restricted fund balance at June 30, 2018 is as follows:

<u>Purpose</u>	<u>General Fund</u>	<u>Fire Station Improvements</u>	<u>Other Governmental Funds</u>
<b>Restricted, All Other:</b>			
Streets	\$ 332,330	\$ -	\$ -
Public safety	41,601	10,418,921	-
Community development	<u>6,402,854</u>	<u>-</u>	<u>766,915</u>
Total	<u>\$ 6,776,785</u>	<u>\$ 10,418,921</u>	<u>\$ 766,915</u>

Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C by the amount of unspent debt proceeds of \$10,978,091 as of June 30, 2018.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### Committed Fund Balance

This classification represents the portion of fund balance that can only be used for specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until action is taken (the adoption of another ordinance) to remove or revise the limitation.

*Committed for Community development* – portion of fund balance committed by the City Council to be used for capital project expenditures related to the Oak Avenue Sidewalk, Irish Buffalo Creek Greenway and the Little Texas Road Sidewalk projects.

*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 for City Employee Separation* – portion of fund balance committed by the City Council that will be used for the Law Enforcement Officers', Firefighters', and General Employees' Special Separation Allowance obligations.

Committed fund balance at June 30, 2018 is as follows:

<u>Purpose</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>
Community development	\$ -	\$ 16,052
Capital projects	-	419,542
City employee separation	236,720	-
Total	<u>\$ 236,720</u>	<u>\$ 435,594</u>

### Assigned Fund Balance

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

### 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. Only the General Fund may report a positive unassigned fund balance.

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,

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

followed in order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Director has the authority to deviate from this policy if it is in the best interest of the City or when required by grant or other contractual agreements.

The City has 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	\$ 18,801,072
Less:	
Prepaid items	(127,988)
Stabilization by state statute	<u>(2,050,612)</u>
Fund balance available for appropriation	<u>\$ 16,622,472</u>

### **Defined Benefit Cost Sharing Plan**

For purposes of measuring the net pension liability, Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City of 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, 2018

### 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, 2018, the City's deposits had a carrying amount of \$3,112,637 and a bank balance of \$3,162,388. 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, 2018, the City's petty cash fund totaled \$7,070.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### Investments

At June 30, 2018, the City had the following investments and maturities:

<u>Investments by Type</u>	<u>Valuation</u>		<u>Less Than</u>			
	<u>Measurement Method</u>	<u>Fair Value</u>	<u>One Year</u>	<u>6-12 months</u>	<u>1 - 3 years</u>	<u>5+ Years</u>
NC Capital Management Trust -						
Government Portfolio	Amortized Cost	\$24,998,593	\$24,998,593	\$ -	\$ -	\$ -
NC Capital Management Trust -						
Term Portfolio	Fair Value - Level 1	4,240,470	4,240,470	-	-	-
Government Agencies	Fair Value - Level 2	7,445,073	-	-	7,445,073	-
Commercial Paper	Fair Value - Level 1	27,693,473	27,693,473	-	-	-
Repurchase Agreements	Cost	3,580,842	3,580,842	-	-	-
Total		<u>\$67,958,451</u>	<u>\$60,513,378</u>	<u>\$ -</u>	<u>\$ 7,445,073</u>	<u>\$ -</u>

All investments are measured using the market approach, using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' benchmark quoted prices.

*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 Government Portfolio carried a credit rating of AAAM by Standard and Poor's as of June 30, 2018. 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 40% of the City's total investments.

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Receivables**

Receivables at the government-wide level at June 30, 2018 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
<b>Governmental Activities:</b>				
General	\$ 51,769	\$ 918,352	\$ 2,269,143	\$ 3,239,264
Governmental	<u>174,012</u>	<u>-</u>	<u>82,138</u>	<u>256,150</u>
Total receivables	225,781	918,352	2,351,281	3,495,414
Allowance for doubtful accounts	<u>-</u>	<u>(495,936)</u>	<u>-</u>	<u>(495,936)</u>
Total	<u>\$ 225,781</u>	<u>\$ 422,416</u>	<u>\$ 2,351,281</u>	<u>\$ 2,999,478</u>
<b>Business-Type Activities:</b>				
Water and sewer	\$ 4,352,051	\$ -	\$ 160,332	\$ 4,512,383
Stormwater	573,481	-	10,583	584,064
Environmental services	636,788	-	13,977	650,765
Downtown	95,899	-	99,024	194,923
Allowance for doubtful accounts	<u>(1,146,701)</u>	<u>-</u>	<u>-</u>	<u>(1,146,701)</u>
Total	<u>\$ 4,511,518</u>	<u>\$ -</u>	<u>\$ 283,916</u>	<u>\$ 4,795,434</u>

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

Local option sales tax	\$ 1,618,106
Property taxes	345,971
Other	<u>671,119</u>
Total	<u>\$ 2,635,197</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Capital Assets**

The following is a summary of changes in the governmental capital assets for the year ended June 30, 2018:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 14,985,101	\$ 18,927	\$ -	\$ 15,004,028
Construction in progress	<u>1,999,657</u>	<u>1,240,663</u>	<u>-</u>	<u>3,240,320</u>
Total non-depreciable capital assets	<u>16,984,758</u>	<u>1,259,590</u>	<u>-</u>	<u>18,244,348</u>
<b>Depreciable Capital Assets:</b>				
Buildings and improvements	66,007,898	61,134	-	66,069,032
Other improvements	7,295,336	569,691	(5,485)	7,859,542
Machinery and equipment	17,940,162	3,021,554	(1,485,029)	19,476,687
Infrastructure	<u>155,517,780</u>	<u>351,162</u>	<u>-</u>	<u>155,868,942</u>
Total depreciable capital assets	<u>246,761,176</u>	<u>4,003,541</u>	<u>(1,490,514)</u>	<u>249,274,203</u>
<b>Less Accumulated Depreciation:</b>				
Building and improvements	5,386,380	733,308	-	6,119,688
Other improvements	1,479,901	197,165	(5,485)	1,671,581
Machinery and equipment	14,172,083	1,383,281	(1,437,768)	14,117,596
Infrastructure	<u>67,671,251</u>	<u>2,474,224</u>	<u>-</u>	<u>70,145,475</u>
Total accumulated depreciation	<u>88,709,615</u>	<u>4,787,978</u>	<u>(1,443,253)</u>	<u>92,054,340</u>
Total depreciable capital assets, net	<u>158,051,561</u>	<u>\$ (784,437)</u>	<u>\$ (47,261)</u>	<u>157,219,863</u>
Total capital assets, net	<u>\$ 175,036,319</u>			<u>\$ 175,464,211</u>

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

General government	\$ 536,129
Public safety	1,086,231
Public works	2,614,496
Parks and recreation	<u>551,122</u>
Total depreciation expense	<u>\$ 4,787,978</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

The following is a summary of changes in the business-type capital assets for the year ended June 30, 2018.

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>Water and Sewer Fund:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 730,342	\$ 108,724	\$ -	\$ 839,066
Construction in progress	<u>20,573,365</u>	<u>9,289,595</u>	<u>-</u>	<u>29,862,960</u>
Total non-depreciable capital assets	<u>21,303,707</u>	<u>9,398,319</u>	<u>-</u>	<u>30,702,026</u>
<b>Depreciable Capital Assets:</b>				
Buildings	22,919,644	-	(24,300)	22,895,344
Distribution systems	91,190,529	2,364,955	-	93,555,484
Machinery and equipment	<u>3,468,904</u>	<u>463,185</u>	<u>(361,804)</u>	<u>3,570,285</u>
Total depreciable capital assets	<u>117,579,077</u>	<u>2,828,140</u>	<u>(386,104)</u>	<u>120,021,113</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	9,150,201	369,318	(9,477)	9,510,042
Distribution systems	33,071,026	1,811,191	-	34,882,217
Machinery and equipment	<u>2,120,374</u>	<u>349,107</u>	<u>(361,804)</u>	<u>2,107,677</u>
Total accumulated depreciation	<u>44,341,601</u>	<u>\$ 2,529,616</u>	<u>\$ (371,281)</u>	<u>46,499,936</u>
Total depreciable capital assets, net	<u>73,237,476</u>			<u>73,521,177</u>
Total Water and Sewer Fund capital assets, net	<u>94,541,183</u>			<u>104,223,203</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>Stormwater Fund:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Construction in progress	\$ 271,353	\$ 283,145	\$ -	\$ 554,498
Total non-depreciable capital assets	<u>271,353</u>	<u>283,145</u>	<u>-</u>	<u>554,498</u>
<b>Depreciable Capital Assets:</b>				
Machinery and equipment	1,163,393	55,117	532,893	1,751,403
Infrastructure	<u>7,465,927</u>	<u>-</u>	<u>-</u>	<u>7,465,927</u>
Total depreciable capital assets	<u>8,629,320</u>	<u>55,117</u>	<u>532,893</u>	<u>9,217,330</u>
<b>Less Accumulated Depreciation:</b>				
Machinery and equipment	865,661	214,352	550,030	1,630,043
Infrastructure	<u>2,709,130</u>	<u>-</u>	<u>-</u>	<u>2,709,130</u>
Total accumulated depreciation	<u>3,574,791</u>	<u>\$ 214,352</u>	<u>\$ 550,030</u>	<u>4,339,173</u>
Total depreciable capital assets, net	<u>5,054,529</u>			<u>4,878,157</u>
Total Stormwater Fund capital assets, net	<u>5,325,882</u>			<u>5,432,655</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>Downtown Kannapolis Fund:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	5,670,870	\$ -	\$ -	5,670,870
Construction in progress	1,198,954	10,004,897	-	11,203,851
Total non-depreciable capital assets	<u>6,869,824</u>	<u>10,004,897</u>	<u>-</u>	<u>16,874,721</u>
<b>Depreciable Capital Assets:</b>				
Buildings	4,023,484	891,472	-	4,914,956
Improvements	-	97,082	-	97,082
Machinery and equipment	21,731	26,808	-	48,539
Total depreciable capital assets	<u>4,045,215</u>	<u>1,015,362</u>	<u>-</u>	<u>5,060,577</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	127,411	95,328	-	222,739
Improvements	-	1,213	-	1,213
Machinery and equipment	4,139	3,605	-	7,744
Total accumulated depreciation	<u>131,550</u>	<u>\$ 100,146</u>	<u>\$ -</u>	<u>231,696</u>
Total depreciable capital assets, net	<u>3,913,665</u>			<u>4,828,881</u>
Total Downtown Kannapolis Fund capital assets, net	<u>10,783,489</u>			<u>21,703,602</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>Environmental Services Fund:</b>				
<b>Depreciable Capital Assets:</b>				
Machinery and equipment	287,044	\$ 840,183	\$ -	1,127,227
Total depreciable capital assets	<u>287,044</u>	<u>840,183</u>	<u>-</u>	<u>1,127,227</u>
<b>Less Accumulated Depreciation:</b>				
Machinery and equipment	4,784	204,960	-	209,744
Total accumulated depreciation	<u>4,784</u>	<u>\$ 204,960</u>	<u>\$ -</u>	<u>209,744</u>
Total depreciable capital assets, net	<u>282,260</u>			<u>917,483</u>
Total Environmental Services Fund capital assets, net	<u>282,260</u>			<u>917,483</u>
Total business-type capital assets, net	<u>\$ 110,932,814</u>			<u>\$ 132,276,943</u>

**Proprietary Intangible Assets**

The intangible assets of the Water and Sewer Fund at June 30, 2018 were as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>Intangible Assets:</b>				
Rowan County water rights	\$ 2,411,100	\$ -	\$ -	\$ 2,411,100
Less accumulated amortization	<u>(723,330)</u>	<u>(48,222)</u>	<u>-</u>	<u>(771,552)</u>
Intangible assets, net	<u>\$ 1,687,770</u>	<u>\$ (48,222)</u>	<u>\$ -</u>	<u>\$ 1,639,548</u>



**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Construction Commitments**

The City has active construction projects as of June 30, 2018. 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>
Moneith	\$ 504,537	\$ 9,511,733	\$ 10,016,270
Harper Corp	899,218	73,782.00	973,000
Phoenix Fabricators	1,052,933	303,100	1,356,033
Halls	1,212,697	51,444	1,264,141
Barton Marlow	8,441,310	16,300,727	24,742,037
C4	4,663,160	924,781	5,587,941

**B. Liabilities**

**Payables**

Payables at the government-wide level at June 30, 2018 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>IBNR</u>	<u>Total</u>
<b>Governmental Activities:</b>				
General	\$ 1,867,193	\$ 1,027,127	\$ 2,077,306	\$ 4,971,626
Other governmental	664,008	-	-	664,008
Total payables	<u>\$ 2,531,201</u>	<u>\$ 1,027,127</u>	<u>\$ 2,077,306</u>	<u>\$ 5,635,634</u>
<b>Business-Type Activities:</b>				
Water and sewer	\$ 620,130	\$ 82,573	\$ -	\$ 702,703
Stormwater	39,304	24,126	-	63,430
Environmental services	236,339	7,817	-	244,156
Downtown	895,825	353,918	-	1,249,743
Total payables	<u>\$ 1,791,598</u>	<u>\$ 468,434</u>	<u>\$ -</u>	<u>\$ 2,260,032</u>

**Pension Plan and Post-Employment Obligations**

**Local Governmental Employees' Retirement System**

**Plan Description.** The City of Kannapolis is a participating employer in the state-wide 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, 2018

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

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

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

**Contributions.** Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of 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, 2018, was 8.25% of compensation for law enforcement officers and 7.55% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Kannapolis were \$1,306,347 for the year ended June 30, 2018.

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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, 2018, the City reported a liability of \$4,588,210 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the City’s proportion was 0.3003%, which was an increase of 0.01523% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$1,379,245. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 264,323	\$ 129,878
Changes of assumptions	655,260	-
Net difference between projected and actual earnings on pension plan investments	1,114,023	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	342,951
Employer contributions subsequent to the measurement date	1,306,347	-
Total	\$ 3,339,953	\$ 472,829

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

\$1,306,347 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending</b>	<b>Amount</b>
<u>June 30</u>	<u>Amount</u>
2019	\$ 68,295
2020	1,233,079
2021	613,374
2022	(353,971)
2023	-
Thereafter	-
Total	<u>\$ 1,560,777</u>

**Actuarial Assumptions.** The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.20 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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	<u>6.0%</u>	4.0%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2017 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

*Discount Rate.* The discount rate used to measure the total pension liability was 7.20%. 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, 2018**

*Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	<b>1% Decrease</b>	<b>Discount</b>	<b>1% Increase</b>
	<b>(6.20%)</b>	<b>Rate (7.20%)</b>	<b>(8.20%)</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
City's proportionate share of the net pension liability (asset)	\$ 13,773,912	\$ 4,588,210	\$ (3,078,950)
	<u>                    </u>	<u>                    </u>	<u>                    </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.

**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 SSA is required for law enforcement officers. In addition, the City has elected to extend the SSA to firefighters and general employees. The Separation Allowance is equal to 0.85% of the annual equivalent of the base rate of compensation most recently applicable to the employee 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. 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, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	23
Active plan members	<u>337</u>
Total	<u><u>360</u></u>

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### Summary of Significant Accounting Policies

*Basis of Accounting.* The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund and Enterprise Funds, which are maintained on a modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

**Actuarial Assumptions.** The entry age normal actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Projected salary increases	3.5 to 7.75 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20 Year High Grade Index.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2014.

**Deaths after Retirement (Healthy) Law Enforcement Officers:** RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 104% for males and 100% for females.

**Deaths before Retirement (Healthy) Firefighters:** RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

**Deaths after Retirement (Healthy) General Employees:** RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 115% for males and 79% for females for ages under 78 and by 135% for males and 116% for females for age 78 and older.

**Deaths before Retirement:** RP-2014 Employees base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

**Deaths after Retirement (Beneficiary):** RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for males and females.

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Deaths after Retirement (Disabled):** RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% for females.

**Contributions.** The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The City’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The City paid \$363,610 as benefits came due for the reporting period.

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

At June 30, 2018, the City reported a total pension liability of \$6,880,354. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the City recognized pension expense of \$590,281.

	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Benefit payments and administrative costs subsequent to measurement date	\$ 197,633	\$ -
Changes of assumptions and other inputs	351,749	105,969
Differences between expected and actual experience	<u>58,157</u>	<u>-</u>
Total	<u>\$ 607,539</u>	<u>\$ 105,969</u>

\$196,553 paid as benefits came due and \$1,080 of administrative expense reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2019	\$ 70,305
2020	70,305
2021	70,305
2022	74,436
2023	18,586
Thereafter	<u>-</u>
Total	<u>\$ 303,937</u>



**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

*Sensitivity of the City's Total Pension Liability to Changes in the Discount Rate.* The following presents the City's total pension liability calculated using the discount rate of 3.16 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	<b>1% Decrease (2.16%)</b>	<b>Discount Rate (3.16%)</b>	<b>1% Increase (4.16%)</b>
Total pension liability	<u>\$ 7,522,635</u>	<u>\$ 6,880,354</u>	<u>\$ 6,297,672</u>

**Schedule of Changes in Total Pension Liability  
Special Separation Allowance**

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Beginning balance	\$ 6,222,001
Service cost	281,075
Interest on the total pension liability	233,152
Difference between expected and actual experience	72,037
Changes of assumptions and other inputs	435,699
Benefit payments made	<u>(363,610)</u>
Net change in total pension liability	<u>658,353</u>
Ending balance of the total pension liability	<u>\$ 6,880,354</u>

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements. The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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

Following is information related to the proportionate share and pension expense for all pension plans:

	<u>LGERS</u>	<u>SSA</u>	<u>Total</u>
Pension expense	\$ 1,379,245	\$ 590,281	\$ 1,969,526
Pension liability	4,588,210	6,880,354	11,468,564
Proportion of the net pension liability (asset)	0.30030%	N/A	

**Deferred Outflows of Resources**

Differences between expected and actual experience	264,323	58,157	322,480
Changes of assumptions	655,260	351,749	1,007,009
Net difference between projected and actual earnings on pension plan investments	1,114,023	-	1,114,023
Employer contributions (LGERS) and benefit payments and administration costs (SSA) subsequent to the measurement date	<u>1,306,347</u>	<u>197,633</u>	<u>1,503,980</u>
	<u>\$ 3,339,953</u>	<u>\$ 607,539</u>	<u>\$ 3,947,492</u>

**Deferred Inflows of Resources**

Differences between expected and actual experience	\$ 129,878	\$ -	\$ 129,878
Changes of assumptions	-	105,969	105,969
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>342,951</u>	<u>-</u>	<u>342,951</u>
	<u>\$ 472,829</u>	<u>\$ 105,969</u>	<u>\$ 578,798</u>

**Supplemental Retirement Income Plan Law Enforcement Officers**

**Plan Description.** The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the Pension Trust Fund financial statements for the Internal Revenue Code Section 401(k) Plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

**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, 2018 were \$324,471, which consisted of \$213,558 from the City and \$110,913 from the law enforcement officers. No amounts were forfeited.

### 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, 2018, the City contributed \$8,999 to this account.

### Other Post-Employment Benefits – Healthcare 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, fifty-nine (59) 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.

Membership of the Plan consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

	Law		
	General	Enforcement	
	Employees	Officers	Fire fighters
Retirees and dependents receiving benefits	71	-	-
Active plan members	130	77	80
Total	<u>201</u>	<u>77</u>	<u>80</u>

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

**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.

### Total OPEB Liability

The City's total OPEB liability of \$46,624,001 was measured as of June 30, 2016 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	3.00 percent
Salary increases	3.50%-7.75%, including wage inflation
Discount rate	3.56 percent
Healthcare cost trend rates	Pre-Medicare - 7.75% for 2016 decreasing to an ultimate rate of 5.00% by 2022 Medicare - 5.75% for 2016 decreasing to an ultimate rate of 5.00% by 2019

The discount rate is based on the June average of the Bond Buyer General Obligation 20-Year Municipal Bond Index published weekly by The Bond Buyer.

### Changes in the Total OPEB Liability

	<b>Total OPEB Liability</b>
Balance at July 1, 2017	<u>\$ 49,353,900</u>
Changes for the year:	
Service cost	2,728,341
Interest	1,474,701
Differences between expected and actual experience	219,695
Changes of assumptions or other inputs	(6,426,198)
Benefit payments	<u>(726,438)</u>
Net changes	<u>(2,729,899)</u>
Balance at June 30, 2018	<u><u>\$ 46,624,001</u></u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

Changes in assumptions and other inputs reflect a change in the Municipal Bond Index Rate from 3.01% to 3.56%.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014, adopted by LGERS.

The remaining actuarial assumptions (e.g., initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate.** The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	<b>1% Decrease (2.56%)</b>	<b>Discount Rate (3.56%)</b>	<b>1% Increase (4.56%)</b>
Total OPEB liability	<u>\$ 59,243,236</u>	<u>\$ 46,624,001</u>	<u>\$ 37,425,975</u>

**Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates.** The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
Total OPEB liability	<u>\$ 36,209,937</u>	<u>\$ 46,624,001</u>	<u>\$ 61,355,156</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the City recognized OPEB expense of \$3,505,682. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 195,010	\$ -
Changes of assumptions	-	5,704,153
Benefit payments and plan administrative expense made subsequent to the measurement date	865,453	-
<b>Total</b>	<b><u>\$ 1,060,463</u></b>	<b><u>\$ 5,704,153</u></b>

\$865,453 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows and outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ending June 30</b>	<b>Total</b>
2019	\$ (697,360)
2020	(697,360)
2021	(697,360)
2022	(697,360)
2023	(697,360)
Thereafter	<u>(2,022,343)</u>
<b>Total</b>	<b><u>\$(5,509,143)</u></b>

**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

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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.

**Deferred Outflows and Inflows of Resources**

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

	<b><u>Deferred Outflows of Resources</u></b>
Contributions to pension plan in current fiscal year	\$ 1,306,347
Differences between expected and actual experience	517,490
Changes of assumptions	1,007,009
Net difference between projected and actual earnings on pension plan investments	1,114,023
Benefit payments and administrative costs for SSA and OPEB	<u>1,063,086</u>
Total	<u><u>\$ 5,007,955</u></u>

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

	<b><u>Deferred Inflows of Resources</u></b>	
	<b><u>Statement of Net Position</u></b>	<b><u>General Fund Balance Sheet</u></b>
Prepaid taxes	\$ 10,905	\$ 10,905
Taxes receivable, net	-	422,416
Cabarrus County contribution - fire station	-	270,300
Differences between expected and actual experience	129,878	-
Changes in assumptions	5,810,122	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>342,951</u>	<u>-</u>
Total	<u><u>\$ 6,293,856</u></u>	<u><u>\$ 703,621</u></u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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**

	<b>Balance</b>			<b>Balance</b>	<b>Current</b>
	<b>July 1, 2017</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2018</b>	<b>Portion</b>
Notes payable	\$ 7,751,829	\$ 3,460,338	\$ 1,129,097	\$ 10,083,070	\$ 1,372,776
U.S. government obligations	250,000	-	50,000	200,000	50,000
Limited obligation bonds	49,940,000	11,100,000	3,195,000	57,845,000	3,840,000
Premium on debt issuance	2,030,477	-	121,223	1,909,254	121,223
Net pension liability (LGERS)	4,961,638	-	1,245,188	3,716,450	-
Compensated absences	1,032,003	1,766,298	1,611,404	1,186,897	890,173
Total OPEB liability	39,179,841	-	1,614,217	37,565,624	-
Total pension liability (SSA)	<u>5,090,728</u>	<u>482,358</u>	<u>-</u>	<u>5,573,086</u>	<u>-</u>
Total	<u>\$ 110,236,516</u>	<u>\$ 16,808,994</u>	<u>\$ 8,966,129</u>	<u>\$ 118,079,381</u>	<u>\$ 6,274,172</u>



# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### 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.	\$ 337,229
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.	810,695
2.0% note, payable in semi-annual installments of \$26,133, excluding interest beginning October 2012 through June 2021; secured by park building.	156,800
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	2,079,778
0% note, payable to County in annual installments of \$62,500, beginning April 2014 through April 2061, secured by the stadium.	2,687,500
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.	313,893
1.51% note, payable in quarterly installments of \$17,475, including interest beginning February 4, 2016 through October 4, 2021; secured by the equipment with proceeds and any related additions, accessions, repairs, replacements, substitutions, and modifications.	236,837
3.42% note, payable in semi-annual installments ranging from \$49,064 to \$221,533, beginning April 1, 2018 through April 1, 2037; secured by the equipment purchased with proceeds and any related additions, accessions, repairs, replacements, substitutions, and modifications.	<u>3,460,338</u>
Total	<u>\$ 10,083,070</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, 2018**

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

<u>Date Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Annual Payments</u>		<u>Balance June 30, 2018</u>	
			<u>General Fund</u>	<u>Enterprise Fund</u>	<u>General Fund</u>	<u>Enterprise Fund</u>
June 2011	4.05%	June 2025	\$ 42,154	\$ 94,090	\$ 337,229	\$ 752,716

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,372,776	\$ 197,194	\$ 1,569,970
2020	1,355,047	167,221	1,522,267
2021	1,053,752	139,154	1,192,905
2022	860,432	115,878	976,310
2023	704,675	96,967	801,642
2024 - 2028	1,544,149	320,024	1,864,173
2029 - 2033	956,839	154,241	1,111,079
2034 - 2038	702,924	44,069	746,993
2039 - 2043	312,500	-	312,500
2044 - 2048	312,500	-	312,500
2049 - 2053	312,500	-	312,500
2054 - 2058	312,500	-	312,500
2059 - 2061	282,476	-	282,476
Total	<u>\$ 10,083,070</u>	<u>\$ 1,234,746</u>	<u>\$ 11,317,816</u>

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### Governmental Activities - U.S. Government Obligations

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 2018. Principal payments were \$49,000 until August 2015 when they increased 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, 2018 was \$200,000.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 50,000	\$ 9,610	\$ 59,610
2020	50,000	6,903	56,903
2021	50,000	4,162	54,162
2022	50,000	1,393	51,393
Total	<u>\$ 200,000</u>	<u>\$ 22,068</u>	<u>\$ 222,068</u>

### Limited Obligation Bonds

The City issued Series 2010A and 2010B Limited Obligation Bonds in December 2010. As security for the 2010 bonds, the City will execute and deliver a deed of trust granting, among other things, a lien of record on the mortgaged property subject to permitted encumbrances. Each series of the 2010 bonds will also be secured by a Debt Service Reserve Fund.

Approximately 50% of the Limited Obligation Bonds were issued to provide funds for the acquisition of property and construction of a new health department, operated and managed by the Cabarrus Health Alliance. The Health Alliance building is a three-story, 62,503 square-foot facility located on approximately 3.4 acres of land east of D Street and south of Juniper Street, just west of its intersection with Dale Earnhardt Boulevard in the City. The remaining 50% of the limited obligation bonds were issued with the intention to provide funds for the 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 used the funds to construct a three story City Hall and Police Headquarters. The building is over 100,000 square feet.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

The City issued Series 2018B Limited Obligation Bonds in April 2018. The City is using the funds for construction of Fire Stations Two and Three.

The City's limited obligation bonds payable at June 30, 2018 are comprised of the following individual issues:

- Series 2010A Limited Obligation Bonds, \$5,575,000
- Series 2010B Limited Obligation Bonds, \$19,310,000
- Series 2014 Limited Obligation Bonds, \$21,860,000
- Series 2018B Limited Obligation Bonds, \$11,100,000

### 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.	\$ 24,885,000
\$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.	21,860,000
\$11,100,000 Series 2018B Limited Obligation Bonds, issued in October 2018, due in annual installments of \$555,000 on April 1, 2018 through 2038. Interest is payable semi-annually at a rate of 3.97%	<u>11,100,000</u>
Total	<u>\$ 57,845,000</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

Annual debt service requirements to maturity for the City's limited obligation bonds for governmental activities are as follows:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 3,840,000	\$ 3,037,683	\$ 5,900,374
2020	5,585,000	2,883,461	7,494,824
2021	4,080,000	2,609,927	5,738,324
2022	4,180,000	2,362,510	5,612,940
2023	4,280,000	2,112,812	-
2024 - 2028	22,140,000	6,351,317	28,042,809
2029 - 2033	9,600,000	1,955,803	8,162,106
2034 - 2038	4,140,000	379,984	2,878,444
<b>Total</b>	<b>\$ 57,845,000</b>	<b>\$ 21,693,496</b>	<b>\$ 63,829,822</b>

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, \$121,223 of amortization expense was recognized.

<b>Year Ending June 30</b>	<b>Principal</b>
2019	\$ 121,223
2020	121,223
2021	121,223
2022	121,223
2023	121,223
2024 - 2028	606,115
2029 - 2033	606,115
2034	90,909
<b>Total</b>	<b>\$ 1,909,254</b>

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Current Maturities
<b>Water and Sewer Fund:</b>					
Revenue bonds	\$ 27,333,325	\$ 23,877,000	\$ 2,098,027	\$ 49,112,298	\$ 2,429,300
Notes payable	2,329,777	-	369,688	1,960,089	371,365
Net pension liability (LGERS)	847,109	-	250,642	596,467	-
Total OPEB liability	6,529,973	-	269,036	6,260,937	-
Total pension liability (SSA)	886,164	8,282	-	894,446	-
Compensated absences	118,928	226,135	201,974	143,089	107,317
Total	<u>38,045,276</u>	<u>24,111,417</u>	<u>3,189,367</u>	<u>58,967,326</u>	<u>2,907,982</u>
<b>Stormwater Fund:</b>					
Notes payable	2,950,114	-	597,008	2,353,106	590,626
Limited obligation bonds	-	7,000,000	-	7,000,000	350,001
Net pension liability (LGERS)	242,031	-	12,620	229,411	-
Total OPEB liability	2,222,970	-	91,587	2,131,383	-
Total pension liability (SSA)	245,109	98,909	-	344,018	-
Compensated absences	30,741	66,166	66,821	30,086	22,565
Total	<u>5,690,965</u>	<u>7,165,075</u>	<u>768,036</u>	<u>12,088,004</u>	<u>963,192</u>
<b>Environmental Services Fund:</b>					
Notes payable	-	1,079,962	103,517	976,445	206,290
Net pension liability (LGERS)	-	45,882	-	45,882	-
Total pension liability (SSA)	-	68,804	-	68,804	-
Total OPEB liability	694,678	-	28,621	666,057	-
Compensated absences	-	19,328	13,789	5,539	4,154
Total	<u>694,678</u>	<u>1,213,976</u>	<u>145,927</u>	<u>1,762,727</u>	<u>210,444</u>
<b>Downtown Kannapolis Fund:</b>					
Notes payable	-	3,521,662	-	3,521,662	255,226
Limited obligation bonds	-	7,900,000	-	7,900,000	394,999
Special obligation bonds	10,266,000	-	734,000	9,532,000	734,000
Total	<u>10,266,000</u>	<u>11,421,662</u>	<u>734,000</u>	<u>20,953,662</u>	<u>1,384,225</u>
<b>Business-Type Activities:</b>					
Revenue bonds	27,333,325	23,877,000	2,098,027	49,112,298	2,429,300
Notes payable	5,279,891	4,601,624	1,070,213	8,811,302	1,423,507
Limited obligation bonds	-	14,900,000	-	14,900,000	745,000
Special obligation bonds	10,266,000	-	734,000	9,532,000	734,000
Net pension liability (LGERS)	1,089,140	45,882	263,262	871,760	-
Total OPEB liability	9,447,621	-	389,244	9,058,377	-
Total pension liability (SSA)	1,131,273	175,995	-	1,307,268	-
Compensated absences	149,669	311,629	282,584	178,714	134,036
Total	<u>\$ 54,696,919</u>	<u>\$ 43,912,130</u>	<u>\$ 4,837,330</u>	<u>\$ 93,771,719</u>	<u>\$ 5,465,843</u>

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

At June 30, 2018, the City had no authorized, but unissued, debt and a legal debt margin of approximately \$218,303,200.

### **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.

On September 1, 2017, the City issued \$6,477,000 in 2017 Revenue Bonds. The proceeds will be used to pay for Davidson Road Water and Sudbury Road Sewer Main projects.

On January 25, 2018 the City issued \$17,400,000 in 2018 Revenue Bonds. The proceeds will be used to pay for Downtown Kannapolis water and sewer lines.

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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:

**Business Type Activities – Revenue Bonds:**

\$6,477,000 Enterprise System Revenue Bonds, Series 2017, due annually in amounts ranging from \$254,000 to \$445,000 through April 2037; interest rate of 3.17%	\$ 6,477,000
\$17,400,000 Enterprise System Revenue Bonds, Series 2018, due annually in amounts ranging from \$484,000 to \$1,175,000 April 1 , starting in 2019 until 2038; interest rate is 3.80%	17,400,000
\$16,300,300 Combined Enterprise System Revenue Bonds, Refunding Series due annually in amounts ranging from \$875,000 to \$1,420,000 through February 2025; interest rate of 2.85%	8,975,298
\$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>16,260,000</u>
Total	<u>\$49,112,298</u>



# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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>
2019	\$ 2,429,300	\$ 1,935,299	\$ 4,364,599
2020	2,619,000	1,738,616	4,357,616
2021	2,716,800	1,645,178	4,361,978
2022	2,871,000	1,553,953	4,424,953
2023	2,961,600	1,460,856	4,422,456
2024 - 2028	11,851,600	5,879,508	17,731,108
2029 - 2033	10,895,000	3,917,308	14,812,308
2034 - 2038	<u>12,767,998</u>	<u>1,584,218</u>	<u>14,352,216</u>
Total	<u>\$ 49,112,298</u>	<u>\$ 19,714,936</u>	<u>\$ 68,827,234</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 2011, Series 2013, Series 2017 and Series 2018 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 2011, Series 2013, and Series 2017 and Series 2018 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, 2018**

The debt service parity coverage ratio calculation for the year ended June 30, 2018 is as follows:

2019 budgeted revenues	\$ 18,362,000
50% of surplus fund at June 30, 2019	1,551,972
2019 budgeted expenses *	<u>(8,644,792)</u>
Operating income	<u>\$ 11,269,180</u>
Debt service on parity indebtedness	\$ 5,237,519
Debt service on subordinate indebtedness	<u>430,987</u>
Total	<u>\$ 5,668,506</u>
Debt service parity coverage ratio	<u>199%</u>

2019 budgeted revenues	\$ 18,362,000
2019 budgeted expenses *	<u>(8,644,792)</u>
Operating income	<u>\$ 9,717,208</u>
Debt service on parity indebtedness	\$ 4,801,059
Debt service on subordinate indebtedness	<u>430,987</u>
Total	<u>\$ 5,232,046</u>
Debt service parity coverage ratio	<u>186%</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 \$58,422,300 in water and sewer system revenue bonds issued in 2011, 2013, 2017 and 2018. 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 \$49,112,298. Principal and interest paid for in the current year and total customer net revenues were \$3,111,769 and \$17,032,109, respectively.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### Business-Type Activities – Notes Payable:

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.	\$ 306,534
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.	289,513
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.	212,404
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.	270,110
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.	639,305
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.	1,484,205
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.	752,716
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.	89,103
1.51% note, payable in quarterly installments of \$19,706, including interest beginning February 4, 2016 through October 4, 2021; secured by the equipment purchased with proceeds and any related additions, accessions, repairs, replacements, substitutions, and modifications.	269,305
2.86% note, payable in quarterly installments of \$58,009, including interest beginning February 1, 2018 through November 1, 2022; secured by the equipment purchased with proceeds and any related additions, accessions, repairs, replacements, substitutions, and modifications.	976,445
3.42% note, payable in semi-annual installments ranging from \$49,936 to \$225,467, excluding interest beginning April 1, 2018 through April 1, 2037; secured by improvements to Downtown Kannapolis and College Station.	<u>3,521,662</u>
Total	<u>\$ 8,811,302</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 1,423,507	\$ 253,300	\$ 1,676,807
2020	1,416,125	214,791	1,630,916
2021	1,262,417	177,248	1,439,664
2022	1,139,015	142,652	1,281,667
2023	816,352	111,601	927,952
2024 - 2028	1,510,188	348,982	1,859,170
2029 - 2033	719,122	160,742	879,864
2034 - 2038	524,577	44,851	569,428
Total	<u>\$ 8,811,302</u>	<u>\$ 1,454,166</u>	<u>\$ 10,265,469</u>

**Business-Type Activities – Special Obligation Bonds**

The City of Kannapolis also issued Special Obligation Bonds in 2016 for the acquisition of Downtown Kannapolis; comprising ten City Blocks and over 700,000 square feet of retail space. The City of Kannapolis pledged Sales Tax revenues to cover 100 percent of the full obligation of both principal and interest, and are payable as collateral for the Special Obligation Bonds, however funds used for repayment will be any General Fund revenue. The Bonds have a stated rate of interest of 4.77 percent and are payable in equal installments of principal for fifteen years. The principal balance due at June 30, 2018 was \$9,532,000.

Annual debt service requirements to maturity for the City’s special obligations are as follows:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 734,000	\$ 437,171	\$ 1,171,171
2020	734,000	402,159	1,136,159
2021	734,000	367,147	1,101,147
2022	733,000	332,159	1,065,159
2023	733,000	297,195	1,030,195
2024-2028	3,665,000	961,513	4,626,513
2029-2031	2,199,000	157,338	2,356,338
Total	<u>\$ 9,532,000</u>	<u>\$ 2,954,681</u>	<u>\$ 12,486,681</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Business-Type Activities – Limited Obligation Bonds**

The City issued \$14,900,000 in Series 2018 Limited Obligation Bonds in January 2018. \$7,000,000 is for Downtown Stormwater Capital Projects. The remaining \$7,900,000 is for Downtown Capital Projects. \$6,000,000 to renovate College Station and \$1,900,000 for Streetscape Downtown.

The City’s limited obligation bonds payable at June 30, 2018 are comprised of the following individual issues:

- Series 2018B Limited Obligation Bonds, \$14,900,000

**Business Type Activities – Limited Obligation Bonds:**

3.62% note, payable in semi-annual installments of \$745,000, excluding interest beginning April 1, 2019 through 2038; secured by the stormwater improvements and improvements to Downtown Kannapolis

	\$ 14,900,000
Total	<u>\$ 14,900,000</u>

Annual debt service requirements to maturity for the City's limited obligation bonds for business-type activities are as follows:

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 745,000	\$ 638,266	\$ 1,383,266
2020	745,000	512,411	1,257,411
2021	745,000	485,442	1,230,442
2022	745,000	458,473	1,203,473
2023	745,000	431,504	1,176,504
2024 - 2028	3,725,000	1,752,985	5,477,985
2029 - 2033	3,724,998	1,078,760	4,803,758
2034 - 2038	<u>3,725,002</u>	<u>404,535</u>	<u>4,129,537</u>
Total	<u>\$ 14,900,000</u>	<u>\$ 5,762,376</u>	<u>\$ 20,662,376</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**3. Interfund Balances and Activity**

Interfund transfers for the fiscal year ended June 30, 2018 consist of the following:

	<u>From</u>	<u>To</u>	<u>Purpose</u>
General Fund	\$ 2,003,676	\$ -	
Nonmajor governmental funds:			
Transit Tax Fund	-	408,000	Operating expenditures
Irish Buffalo Creek Greenway Capital Project Fund	-	389,476	Capital expenditures
Downtown Kannapolis Fund	-	1,206,200	Operating expenditures
General Fund	-	1,714,319	
Nonmajor governmental funds:			
Village Park Phase III Improvements	1,714,319	-	Close of Capital Project Fund
General Fund	995,000	-	
Major enterprise funds:			
Environmental Services Fund	-	995,000	Operating expenditures
Water and Sewer Fund	114,290	-	
Environmental Services Fund	-	114,290	Operating expenditures
Total	<u>\$ 4,827,285</u>	<u>\$ 4,827,285</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 \$3,036,599 from WSACC for the year ended June 30, 2018.

**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.

**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.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

The City's coverage is as follows:

Property	\$193,146,621 property, inland marine - equipment \$3,044,923; computer equipment/media, \$2,058,756; fine arts \$292,675; and portable equipment \$1,623,569
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
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
Liquor	\$1,000,000 per occurrence

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, 2018

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

	<u>2018</u>	<u>2017</u>
Unpaid claims:		
Beginning of year - July 1	\$ 181,463	\$ 183,539
Incurred claims	3,545,638	2,905,767
Claim payments	<u>(2,827,405)</u>	<u>(2,907,843)</u>
End of year - June 30	<u>\$ 899,696</u>	<u>\$ 181,463</u>

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

	<u>2018</u>	<u>2017</u>
Unpaid claims:		
Beginning of year - July 1	\$ 789,292	\$ 609,486
Incurred claims	962,388	1,285,986
Claim payments	<u>(574,070)</u>	<u>(1,106,180)</u>
End of year - June 30	<u>\$ 1,177,610</u>	<u>\$ 789,292</u>

Claims typically have been liquidated in the General Fund.

### 7. Claims and Judgments

At June 30, 2018, 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.



**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**9. Net Investment in Capital Assets**

The City's net investment in capital assets at June 30, 2018 is calculated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net capital assets	\$ 175,464,211	\$ 133,916,491
Total debt, gross	70,037,324	57,923,600
Less:		
Unexpended proceeds	<u>10,978,091</u>	<u>25,934,654</u>
Total capital debt	<u>59,059,233</u>	<u>31,988,946</u>
Net investment in capital assets	<u>\$ 116,404,978</u>	<u>\$ 101,927,545</u>

**10. Change in Accounting Principles/Restatement**

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions, in the fiscal year ending June 30, 2018. The implementation of the statement required the City to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the City related to OPEB during the measurement period (fiscal year ending December 31, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for governmental activities decreased \$24,942,452 and \$5,847,925 for the business-type activities.

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## **Required Supplemental Financial Data**

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

*Special Separation Allowance* – Schedule of Changes in Total Pension Liability and  
Schedule of Total Pension Liability as a  
Percentage of Covered Payroll

*Other Post-Employment Benefits* – Schedule of Changes in the Total OPEB  
Liability and Related Ratios

*Local Government Employees' Retirement System* – Schedule of Proportionate Share of  
Net Pension Liability (Asset) and  
Schedule of City Contributions

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## CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY  
 SPECIAL SEPARATION ALLOWANCE  
 LAST TWO FISCAL YEARS

<b>Special Separation Allowance</b>		
	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 6,222,001	\$ 6,217,278
Service cost	281,075	285,670
Interest on the total pension liability	233,152	215,961
Difference between expected and actual experience in the measurement of the total pension liability	72,037	-
Changes in assumptions or other inputs	435,699	(161,019)
Benefit payments	(363,610)	(335,889)
Ending balance of the total pension liability	<u>\$ 6,880,354</u>	<u>\$ 6,222,001</u>

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

\*Pension schedules are intended to show information for ten years, additional years' information will be displayed as it comes available.

## CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL  
 SPECIAL SEPARATION ALLOWANCE  
 LAST TWO FISCAL YEARS

	<u>Special Separation Allowance</u>	
	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 6,880,354	\$ 6,222,001
Covered payroll	16,792,511	15,604,787
Total pension liability as a percentage of covered payroll	40.97%	39.87%

## Notes to schedules:

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

## CITY OF KANNAPOLIS, NORTH CAROLINA

## OTHER POST-EMPLOYMENT BENEFITS

## REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

JUNE 30, 2018

<u>Other Post-Employment Benefits</u>	
	<u>2018</u>
Service cost	\$ 2,728,341
Interest	1,474,701
Differences between expected and actual experience	219,695
Changes of assumptions or other inputs	(6,426,198)
Benefit payments	<u>(726,438)</u>
Net change in total OPEB liability	(2,729,899)
Total OPEB liability - beginning	<u>49,353,900</u>
Total OPEB liability - ending	<u>\$ 46,624,001</u>
Covered payroll	\$ 13,974,196
Total OPEB liability as a percentage of covered payroll	333.64%

Notes to the required schedules:

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

<u>Fiscal Year</u>	<u>Rate</u>
2018	3.56%

## CITY OF KANNAPOLIS, NORTH CAROLINA

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

<b>Local Government Employees' Retirement System</b>					
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Proportion of the net pension liability (asset) (%)	0.3003%	0.2851%	0.3032%	0.2992%	0.3131%
Proportion of the net pension liability (asset) (\$)	\$ 4,588,210	\$ 6,050,778	\$ 1,360,608	\$ (1,764,816)	\$ 3,774,057
Covered payroll	\$ 16,028,418	\$ 15,428,072	\$ 15,658,317	\$ 13,923,927	\$ 12,535,436
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	28.63%	39.22%	8.69%	-12.67%	30.11%
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

Note: The pension schedules in the required supplementary information are intended to show information for ten years. Additional information will be displayed as it becomes available.



## CITY OF KANNAPOLIS, NORTH CAROLINA

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

	<u>Local Government Employees' Retirement System</u>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,306,347	\$ 1,200,412	\$ 1,055,969	\$ 1,121,348	\$ 992,728
Contributions in relation to the contractually required contribution	<u>1,306,347</u>	<u>1,200,412</u>	<u>1,055,969</u>	<u>1,121,348</u>	<u>992,728</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 16,923,466	\$ 16,028,418	\$ 15,428,072	\$ 15,658,317	\$ 13,923,927
Contributions as a percentage of covered-employee payroll	7.72%	7.49%	6.84%	7.16%	7.13%

Note: The pension schedules in the required supplementary information are intended to show information for ten years. Additional information will be displayed as it becomes available.

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## **General Fund**

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

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CITY OF KANNAPOLIS, NORTH CAROLINA

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2018

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Over/Under</b>
<b>Revenues:</b>			
<b>Ad Valorem Taxes:</b>			
Current year, net of refund	\$ 24,538,000	\$ 25,088,512	\$ 550,512
Prior year, net of refunds	462,000	346,712	(115,288)
Total	<u>25,000,000</u>	<u>25,435,224</u>	<u>435,224</u>
<b>Other Taxes and Licenses:</b>			
Vehicle licenses	380,000	401,692	21,692
Local option sales tax	9,180,000	9,561,175	381,175
Other taxes and licenses	5,000	4,178	(822)
Total	<u>9,565,000</u>	<u>9,967,045</u>	<u>402,045</u>
<b>Unrestricted Intergovernmental:</b>			
Franchise tax	2,650,000	2,716,262	66,262
Beer and wine	210,000	201,816	(8,184)
ABC profit distribution	100,000	86,400	(13,600)
Rowan County contribution	4,000	4,231	231
Total	<u>2,964,000</u>	<u>3,008,709</u>	<u>44,709</u>
<b>Restricted Intergovernmental:</b>			
"State Street-Aid" allocation	1,293,000	1,301,140	8,140
Controlled substance tax	-	17,188	17,188
Federal Asset Forfeiture Funds	-	21,423	21,423
NC Department of Commerce	-	5,525	5,525
TIF contribution Cabarrus County	1,513,000	1,523,585	10,585
Total	<u>2,806,000</u>	<u>2,868,861</u>	<u>62,861</u>
<b>Sales and Services:</b>			
Public safety fees	106,000	160,284	54,284
Rents	155,000	155,251	251
Other fees	550,000	678,089	128,089
Total	<u>811,000</u>	<u>993,624</u>	<u>182,624</u>
<b>Investment Earnings</b>	<u>200,000</u>	<u>328,598</u>	<u>128,598</u>
<b>Miscellaneous</b>	<u>825,482</u>	<u>1,040,302</u>	<u>214,820</u>
Total revenues	<u>42,171,482</u>	<u>43,642,363</u>	<u>1,470,881</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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Expenditures:</b>			
<b>General Government:</b>			
<b>Governing Body:</b>			
Salaries and employee benefits	79,047	76,201	2,846
Operating expenditures	<u>148,100</u>	<u>129,660</u>	<u>18,440</u>
Total	<u>227,147</u>	<u>205,861</u>	<u>21,286</u>
<b>City Manager:</b>			
Salaries and employee benefits	762,428	757,831	4,597
Operating expenditures	<u>74,600</u>	<u>64,579</u>	<u>10,021</u>
Total	<u>837,028</u>	<u>822,410</u>	<u>14,618</u>
<b>Human Resources:</b>			
Salaries and employee benefits	379,646	377,284	2,362
Operating expenditures	<u>112,276</u>	<u>115,674</u>	<u>(3,398)</u>
Total	<u>491,922</u>	<u>492,958</u>	<u>(1,036)</u>
<b>Attorney:</b>			
Salaries and employee benefits	255,016	251,315	3,701
Operating expenditures	<u>85,351</u>	<u>69,595</u>	<u>15,756</u>
Total	<u>340,367</u>	<u>320,910</u>	<u>19,457</u>
<b>Finance:</b>			
Salaries and employee benefits	619,801	612,498	7,303
Operating expenditures	<u>240,900</u>	<u>234,368</u>	<u>6,532</u>
Total	<u>860,701</u>	<u>846,866</u>	<u>13,835</u>
<b>Information Technology:</b>			
Contract services	452,000	453,055	(1,055)
Operating expenditures	821,456	790,866	30,590
Capital outlay	<u>108,125</u>	<u>108,125</u>	<u>-</u>
Total	<u>1,381,581</u>	<u>1,352,046</u>	<u>29,535</u>
<b>General Services:</b>			
Salaries and employee benefits	698,500	656,078	42,422
Operating expenditures	1,256,947	1,139,055	117,892
Capital outlay	<u>142,810</u>	<u>140,307</u>	<u>2,503</u>
Total	<u>2,098,257</u>	<u>1,935,440</u>	<u>162,817</u>
<b>Economic Development:</b>			
Operating expenditures	<u>2,563,820</u>	<u>2,164,886</u>	<u>398,934</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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Communications:</b>			
Operating expenditures	208,832	165,942	42,890
Capital outlay	5,026	5,026	-
Total	<u>213,858</u>	<u>170,968</u>	<u>42,890</u>
<b>Non-Departmental:</b>			
Operating expenditures	2,357,805	2,142,485	215,320
Total	<u>2,357,805</u>	<u>2,142,485</u>	<u>215,320</u>
Total general government	<u>11,372,486</u>	<u>10,454,830</u>	<u>917,656</u>
<b>Public Safety:</b>			
<b>Police:</b>			
Salaries and employee benefits	6,942,598	6,776,522	166,076
Operating expenditures	1,213,812	1,048,631	115,271
Capital outlay	555,800	521,850	33,950
Total	<u>8,712,210</u>	<u>8,347,003</u>	<u>315,297</u>
<b>Fire:</b>			
Salaries and employee benefits	6,420,636	6,365,063	55,573
Operating expenditures	1,203,012	1,169,508	33,504
Capital outlay	2,004,500	1,996,496	8,004
Total	<u>9,628,148</u>	<u>9,531,067</u>	<u>97,081</u>
Total public safety	<u>18,340,358</u>	<u>17,878,070</u>	<u>462,288</u>
<b>Public Works:</b>			
<b>Engineering:</b>			
Salaries and employee benefits	757,938	712,472	45,466
Operating expenditures	68,393	53,285	15,108
Capital outlay	350,000	237,372	112,628
Contract services	300,000	270,805	29,195
Total	<u>1,476,331</u>	<u>1,273,934</u>	<u>202,397</u>
<b>Streets and Highways:</b>			
Salaries and employee benefits	714,842	701,096	13,746
Operating expenditures	1,209,957	1,097,815	112,142
Capital outlay	353,000	316,925	36,075
Total	<u>2,277,799</u>	<u>2,115,836</u>	<u>161,963</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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Powell Bill:</b>			
Operating expenditures	1,370,500	1,154,352	216,148
Total	<u>1,370,500</u>	<u>1,154,352</u>	<u>216,148</u>
Total public works	<u>5,124,630</u>	<u>4,544,122</u>	<u>580,508</u>
<b>Community Development:</b>			
<b>Planning:</b>			
Salaries and employee benefits	583,976	535,578	48,398
Operating expenditures	<u>326,956</u>	<u>259,440</u>	<u>67,516</u>
Total	<u>910,932</u>	<u>795,018</u>	<u>115,914</u>
Total community development	<u>910,932</u>	<u>795,018</u>	<u>115,914</u>
<b>Parks and Recreation:</b>			
<b>Parks and Recreation Programs:</b>			
Salaries and employee benefits	1,020,670	1,002,030	18,640
Operating expenditures	968,841	874,404	94,437
Capital outlay	<u>376,329</u>	<u>323,551</u>	<u>52,778</u>
Total	<u>2,365,840</u>	<u>2,199,985</u>	<u>165,855</u>
<b>Stadium:</b>			
Operating expenditures	<u>216,000</u>	<u>208,377</u>	<u>7,623</u>
Total	<u>216,000</u>	<u>208,377</u>	<u>7,623</u>
Total parks and recreation	<u>2,581,840</u>	<u>2,408,362</u>	<u>173,478</u>
<b>Debt Service:</b>			
Principal retirement	4,468,833	4,324,097	144,736
Interest and fees	<u>3,401,173</u>	<u>3,049,085</u>	<u>352,088</u>
Total debt service	<u>7,870,006</u>	<u>7,373,182</u>	<u>496,824</u>
Total expenditures	<u>46,200,252</u>	<u>43,453,584</u>	<u>2,746,668</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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues over (under) expenditures	(4,028,770)	188,779	4,217,549
<b>Other Financing Sources (Uses):</b>			
Long-term debt issued	1,810,338	1,810,338	-
Transfers in	1,714,319	1,714,319	-
Transfers out	(2,998,676)	(2,998,676)	-
Appropriated fund balance	<u>3,502,789</u>	<u>-</u>	<u>(3,502,789)</u>
Total other financing sources (uses)	<u>4,028,770</u>	<u>525,981</u>	<u>(3,502,789)</u>
Net change in fund balance	<u>\$ -</u>	714,760	<u>\$ 714,760</u>
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>18,086,312</u>	
End of year - June 30		<u>\$ 18,801,072</u>	

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## **Major Capital Project Fund**

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***Fire Station Improvements*** - This fund is used to account for funds used for the construction of Fire Stations Two and Three.

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## CITY OF KANNAPOLIS, NORTH CAROLINA

**MAJOR CAPITAL PROJECT FUND - FIRE STATION IMPROVEMENTS**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
<b>Revenues:</b>				
Investment earnings	\$ -	\$ -	\$ 20,114	\$ 20,114
Total revenues	<u>-</u>	<u>-</u>	<u>20,114</u>	<u>20,114</u>
<b>Expenditures:</b>				
Contracted services	693,200	74,156	418,750	492,906
Capital outlay	<u>11,344,800</u>	<u>438,686</u>	<u>563,185</u>	<u>1,001,871</u>
Debt service:				
Interest and fees	<u>62,000</u>	<u>-</u>	<u>61,416</u>	<u>61,416</u>
Total expenditures	<u>12,100,000</u>	<u>512,842</u>	<u>1,043,351</u>	<u>1,556,193</u>
Revenues over (under) expenditures	<u>(12,100,000)</u>	<u>(512,842)</u>	<u>(1,023,237)</u>	<u>(1,536,079)</u>
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	11,245,000	-	11,100,000	11,100,000
Transfers in	<u>855,000</u>	<u>855,000</u>	<u>-</u>	<u>855,000</u>
Total other financing sources (uses)	<u>12,100,000</u>	<u>855,000</u>	<u>11,100,000</u>	<u>11,955,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 342,158</u>	<u>\$ 10,076,763</u>	<u>\$ 10,418,921</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2018

	<i>Schedule C-1</i>	<i>Schedule D-1</i>	
	<b>Special Revenue Funds</b>	<b>Capital Project Funds</b>	<b>Total</b>
<b>Assets:</b>			
Cash and investments	\$ 734,444	\$ 419,542	\$ 1,153,986
Long-term receivable	174,012	-	174,012
Due from other governments	282	81,364	81,646
Cash and cash equivalents, restricted	213,798	-	213,798
Total assets	<u>\$ 1,122,536</u>	<u>\$ 500,906</u>	<u>\$ 1,623,442</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 165,275	\$ -	\$ 165,275
Total liabilities	<u>165,275</u>	<u>-</u>	<u>165,275</u>
<b>Fund Balances:</b>			
Restricted:			
Stabilization for state statute	174,294	81,364	255,658
Restricted, all other	766,915	-	766,915
Committed	16,052	419,542	435,594
Total fund balances	<u>957,261</u>	<u>500,906</u>	<u>1,458,167</u>
Total liabilities and fund balances	<u>\$ 1,122,536</u>	<u>\$ 500,906</u>	<u>\$ 1,623,442</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, 2018**

	<i>Schedule C-2</i> <b>Special Revenue Funds</b>	<i>Schedule D-2</i> <b>Capital Project Funds</b>	<b>Total</b>
<b>Revenues:</b>			
Other taxes and licenses	\$ 200,846	\$ -	\$ 200,846
Restricted intergovernmental	322,372	80,416	402,788
Investment earnings	15	-	15
Total revenues	<u>523,233</u>	<u>80,416</u>	<u>603,649</u>
<b>Expenditures:</b>			
Economic development	931,464	8,148	939,612
Contracted services	-	86,833	86,833
Capital outlay	-	114,648	114,648
Total expenditures	<u>931,464</u>	<u>209,629</u>	<u>1,141,093</u>
Revenues over (under) expenditures	<u>(408,231)</u>	<u>(129,213)</u>	<u>(537,444)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	408,000	389,476	797,476
Transfers out	-	(1,714,319)	(1,714,319)
Debt financing issued	-	1,650,000	1,650,000
Total other financing sources (uses)	<u>408,000</u>	<u>325,157</u>	<u>733,157</u>
Net change in fund balances	(231)	195,944	195,713
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>957,492</u>	<u>304,962</u>	<u>1,262,454</u>
End of year - June 30	<u>\$ 957,261</u>	<u>\$ 500,906</u>	<u>\$ 1,458,167</u>

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## **Special Revenue Funds**

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

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

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

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## CITY OF KANNAPOLIS, NORTH CAROLINA

## NONMAJOR SPECIAL REVENUE FUNDS

## COMBINING BALANCE SHEET

JUNE 30, 2018

	<b>Community Development Block Grant</b>	<b>Transit Tax Fund</b>	<b>Total</b>
<b>Assets:</b>			
Cash and investments	\$ 17,368	\$ 717,076	\$ 734,444
Long-term receivable	174,012	-	174,012
Due from other governments	282	-	282
Restricted cash	213,798	-	213,798
Total assets	<u>\$ 405,460</u>	<u>\$ 717,076</u>	<u>\$ 1,122,536</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	<u>\$ 1,316</u>	<u>\$ 163,959</u>	<u>\$ 165,275</u>
Total liabilities	<u>1,316</u>	<u>163,959</u>	<u>165,275</u>
<b>Fund Balances:</b>			
Restricted:			
Stabilization for state statute	174,294	-	174,294
Restricted, all other	213,798	553,117	766,915
Committed	16,052	-	16,052
Total fund balances	<u>404,144</u>	<u>553,117</u>	<u>957,261</u>
Total liabilities and fund balances	<u>\$ 405,460</u>	<u>\$ 717,076</u>	<u>\$ 1,122,536</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, 2018**

	<b>Community Development Block Grant</b>	<b>Transit Tax Fund</b>	<b>Total</b>
<b>Revenues:</b>			
Other taxes and licenses	\$ -	\$ 200,846	\$ 200,846
Restricted intergovernmental	322,372	-	322,372
Investment earnings	<u>15</u>	<u>-</u>	<u>15</u>
Total revenues	<u>322,387</u>	<u>200,846</u>	<u>523,233</u>
<b>Expenditures:</b>			
Current:			
Economic development	<u>332,404</u>	<u>599,060</u>	<u>931,464</u>
Revenues over (under) expenditures	(10,017)	(398,214)	(408,231)
<b>Other Financing Sources (Uses):</b>			
Transfers in (out)	<u>-</u>	<u>408,000</u>	<u>408,000</u>
Net change in fund balances	(10,017)	9,786	(231)
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>414,161</u>	<u>543,331</u>	<u>957,492</u>
End of year - June 30	<u>\$ 404,144</u>	<u>\$ 553,117</u>	<u>\$ 957,261</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, 2018**

	Project Authorization	Actual		
		Prior Years	Current Year	Total To Date
<b>Revenues:</b>				
CDBG 2006	\$ 2,139,282	\$ 2,139,282	\$ -	\$ 2,139,282
CDBG 2014	325,452	325,452	-	325,452
CDBG 2016	326,534	312,913	13,621	326,534
CDBG 2017	341,246	-	231,020	231,020
CDBG 2017	336,305	-	-	-
CDBG 2015 Program Income	-	1,060	-	1,060
2011 HOME Program Grant	124,946	124,946	-	124,946
2013 HOME Program Grant	104,483	104,483	-	104,483
2014 HOME Program Grant	125,421	115,762	9,659	125,421
2016 HOME Program Grant	102,273	-	56,688	56,688
2017 HOME Program Grant	106,846	-	-	-
2018 HOME Program Grant	134,048	-	11,384	11,384
2011 Consortium HOME Program Income	96,834	96,833	-	96,833
2018 Consortium HOME Program Income	13,386	13,386	-	13,386
2017 Urgent Repair Grant	50,000	50,000	-	50,000
Investment income	-	135	15	150
Total revenues	<u>4,327,056</u>	<u>3,284,252</u>	<u>322,387</u>	<u>3,606,639</u>
<b>Expenditures:</b>				
CDBG 2006:				
Section 108 loan payments	<u>2,139,282</u>	<u>1,714,328</u>	<u>-</u>	<u>1,714,328</u>
Total	<u>2,139,282</u>	<u>1,714,328</u>	<u>-</u>	<u>1,714,328</u>
CDBG 2014:				
Administration	65,090	65,090	-	65,090
Infrastructure improvements	103,415	29,182	-	29,182
Public service	48,000	48,000	-	48,000
Section 108 loan payments	68,947	67,433	-	67,433
Urgent Repair Program	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Total	<u>325,452</u>	<u>249,705</u>	<u>-</u>	<u>249,705</u>
CDBG 2015:				
Urgent Repair Program	<u>-</u>	<u>-</u>	<u>150</u>	<u>150</u>
Total	<u>-</u>	<u>-</u>	<u>150</u>	<u>150</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, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total To Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
CDBG 2016:				
Administration	65,300	65,300	-	65,300
Public service	48,000	48,000	-	48,000
Section 108 loan payments	64,882	64,882	-	64,882
Urgent Repair Program	57,053	48,352	8,701	57,053
Demolition	21,299	16,299	5,000	21,299
Total	<u>326,534</u>	<u>242,833</u>	<u>13,701</u>	<u>256,534</u>
CDBG 2017:				
Administration	68,200	68,200	-	68,200
Infrastructure improvements	100,766	-	-	-
Public service	50,000	48,202	1,798	50,000
Section 108 loan payments	62,280	-	62,280	62,280
Urgent Repair Program	30,000	28,616	1,384	30,000
Demolition	30,000	-	10,800	10,800
Total	<u>341,246</u>	<u>145,018</u>	<u>76,262</u>	<u>221,280</u>
CDBG 2018:				
Administration	67,261	-	67,261	67,261
Infrastructure improvements	88,089	-	-	-
Public service	44,000	-	41,634	41,634
Section 108 loan payments	80,955	-	-	-
Urgent Repair Program	56,000	-	45,783	45,783
Total	<u>336,305</u>	<u>-</u>	<u>154,678</u>	<u>154,678</u>
2011 HOME Program Grant:				
Administration	15,372	15,372	-	15,372
Construction	50,000	50,000	-	50,000
Transitional housing	136,408	124,418	-	124,418
Downpayment assistance	20,000	20,000	-	20,000
Total	<u>221,780</u>	<u>209,790</u>	<u>-</u>	<u>209,790</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, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>
2013 HOME Program Grant:				
Administration	5,915	5,915	-	5,915
Property purchase	18,568	18,568	-	18,568
Program rehabilitation	60,000	60,000	-	60,000
Downpayment assistance	20,000	11,432	-	11,432
Total	<u>104,483</u>	<u>95,915</u>	<u>-</u>	<u>95,915</u>
2014 HOME Program Grant:				
Administration	7,099	6,341	757	7,098
Program rehabilitation	118,322	110,993	870	111,863
Total	<u>125,421</u>	<u>117,334</u>	<u>1,627</u>	<u>118,961</u>
2016 HOME Program Grant:				
Administration	5,789	557	2,240	2,797
Senior housing	96,484	18,485	44,678	63,163
Total	<u>102,273</u>	<u>19,042</u>	<u>46,918</u>	<u>65,960</u>
2017 HOME Program Grant:				
Administration	6,047	199	5,848	6,047
Senior housing	100,799	-	-	-
Total	<u>106,846</u>	<u>199</u>	<u>5,848</u>	<u>6,047</u>
2017 Urgent Repair Grant:				
Rehabilitation	50,000	34,424	15,576	50,000
Total	<u>50,000</u>	<u>34,424</u>	<u>15,576</u>	<u>50,000</u>
2018 HOME Program Income:				
Program rehabilitation	13,386	1,346	12,041	13,387
Total	<u>13,386</u>	<u>1,346</u>	<u>12,041</u>	<u>13,387</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, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total To Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
2018 HOME Program Grant:				
Administration	18,410	-	5,353	5,353
Program rehabilitation	15,638	-	250	250
Senior housing	100,000	-	-	-
Total	<u>134,048</u>	<u>-</u>	<u>5,603</u>	<u>5,603</u>
Total expenditures	<u>4,327,056</u>	<u>2,829,934</u>	<u>332,404</u>	<u>3,162,338</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 454,318</u>	<u>\$ (10,017)</u>	<u>\$ 444,301</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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Other taxes and licenses:			
Vehicle license tax	\$ 190,000	\$ 200,846	\$ 10,846
Total revenues	<u>190,000</u>	<u>200,846</u>	<u>10,846</u>
<b>Expenditures:</b>			
Contracted services	<u>598,000</u>	<u>599,060</u>	<u>(1,060)</u>
Revenues over (under) expenditures	(408,000)	(398,214)	9,786
<b>Other Financing Sources (Uses):</b>			
Transfers in (out)	<u>408,000</u>	<u>408,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 9,786</u>	<u>\$ 9,786</u>

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## Capital Project Funds

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**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 six Capital Project Funds.

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

***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.

***Village Park Phase 3 Improvements*** - This fund is used to account for funds used for the upgrades to Village Park including a double decker carousel.

***Bethpage Sidewalks*** - This fund is used to account for sidewalk improvements on Bethpage Road.

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CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS  
 COMBINING BALANCE SHEET  
 JUNE 30, 2018

	Irish Buffalo Creek Greenway	Oak Avenue Sidewalk	Little Texas Road Sidewalk	Village Park Phase 3 Improvements	Bethpage Sidewalks	Total
<b>Assets:</b>						
Cash and investments	\$ 226,326	\$ 155,086	\$ 38,130	\$ -	\$ -	\$ 419,542
Due from other governments	65,566	10,884	4,914	-	-	81,364
Total assets	\$ 291,892	\$ 165,970	\$ 43,044	\$ -	\$ -	\$ 500,906
<b>Fund Balances:</b>						
Restricted:						
Stabilization for state statute	\$ 65,566	\$ 10,884	\$ 4,914	\$ -	\$ -	\$ 81,364
Committed	226,326	155,086	38,130	-	-	419,542
Total fund balances	\$ 291,892	\$ 165,970	\$ 43,044	\$ -	\$ -	\$ 500,906

**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, 2018**

	<b>Irish Buffalo Creek Greenway</b>	<b>Oak Avenue Sidewalk</b>	<b>Little Texas Road Sidewalk</b>	<b>Village Park Phase 3 Improvements</b>	<b>Bethpage Sidewalks</b>	<b>Total</b>
<b>Revenues:</b>						
Restricted intergovernmental	\$ 65,566	\$ 10,884	\$ 3,966	\$ -	\$ -	\$ 80,416
Total revenues	<u>65,566</u>	<u>10,884</u>	<u>3,966</u>	-	-	<u>80,416</u>
<b>Expenditures:</b>						
<b>Current:</b>						
Contracted services	86,833	-	-	-	-	86,833
Operating expenses	-	8,148	-	-	-	8,148
Capital outlay	89,714	5,303	5,288	14,343	-	114,648
Total expenditures	<u>176,547</u>	<u>13,451</u>	<u>5,288</u>	<u>14,343</u>	-	<u>209,629</u>
Revenues over (under) expenditures	<u>(110,981)</u>	<u>(2,567)</u>	<u>(1,322)</u>	<u>(14,343)</u>	-	<u>(129,213)</u>
<b>Other Financing Sources (Uses):</b>						
Transfers in	389,476	-	-	-	-	389,476
Transfers out	-	-	-	(1,714,319)	-	(1,714,319)
Issuance of long-term debt	-	-	-	1,650,000	-	1,650,000
Total other financing sources (uses)	<u>389,476</u>	-	-	<u>(64,319)</u>	-	<u>325,157</u>
Net change in fund balances	278,495	(2,567)	(1,322)	(78,662)	-	195,944
<b>Fund Balances:</b>						
Beginning of year - July 1	13,397	168,537	44,366	78,662	-	304,962
End of year - June 30	<u>\$ 291,892</u>	<u>\$ 165,970</u>	<u>\$ 43,044</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,906</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, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
<b>Revenues:</b>				
Proceeds from grants	\$ 2,136,000	\$ 120,873	\$ 65,566	\$ 186,439
Contributions	129,024	96,014	-	96,014
Total revenues	<u>2,265,024</u>	<u>216,887</u>	<u>65,566</u>	<u>282,453</u>
<b>Expenditures:</b>				
Capital outlay	2,341,668	-	89,714	89,714
Contract engineering	328,332	218,990	86,833	305,823
Total expenditures	<u>2,670,000</u>	<u>218,990</u>	<u>176,547</u>	<u>395,537</u>
Revenues over (under) expenditures	<u>(404,976)</u>	<u>(2,103)</u>	<u>(110,981)</u>	<u>(113,084)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	404,976	15,500	389,476	404,976
Total other financing sources (uses)	<u>404,976</u>	<u>15,500</u>	<u>389,476</u>	<u>404,976</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 13,397</u>	<u>\$ 278,495</u>	<u>\$ 291,892</u>

## 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, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
<b>Revenues:</b>				
Proceeds from grants	\$ 880,000	\$ 85,855	\$ 10,884	\$ 96,739
Total revenues	<u>880,000</u>	<u>85,855</u>	<u>10,884</u>	<u>96,739</u>
<b>Expenditures:</b>				
Operating expenses	8,919	768	8,148	8,916
Capital outlay	<u>1,091,081</u>	<u>106,550</u>	<u>5,303</u>	<u>111,853</u>
Total expenditures	<u>1,100,000</u>	<u>107,318</u>	<u>13,451</u>	<u>120,769</u>
Revenues over (under) expenditures	(220,000)	(21,463)	(2,567)	(24,030)
<b>Other Financing Sources (Uses):</b>				
Transfers in	<u>220,000</u>	<u>190,000</u>	<u>-</u>	<u>190,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 168,537</u>	<u>\$ (2,567)</u>	<u>\$ 165,970</u>



## 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, 2018**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>
<b>Revenues:</b>				
Proceeds from grants	\$ 153,000	\$ 19,902	\$ 3,966	\$ 23,868
Total revenues	<u>153,000</u>	<u>19,902</u>	<u>3,966</u>	<u>23,868</u>
<b>Expenditures:</b>				
Capital outlay	204,000	26,536	5,288	31,824
Total expenditures	<u>204,000</u>	<u>26,536</u>	<u>5,288</u>	<u>31,824</u>
Revenues over (under) expenditures	(51,000)	(6,634)	(1,322)	(7,956)
<b>Other Financing Sources (Uses):</b>				
Transfers in	51,000	51,000	-	51,000
Net change in fund balance	<u>\$ -</u>	<u>\$ 44,366</u>	<u>\$ (1,322)</u>	<u>\$ 43,044</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

**CAPITAL PROJECT FUND - VILLAGE PARK PHASE III IMPROVEMENTS**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
<b>Expenditures:</b>				
Contracted services	\$ 91,100	\$ 91,100	\$ -	\$ 91,100
Capital outlay	1,494,581	1,480,238	14,343	1,494,581
Total expenditures	<u>1,585,681</u>	<u>1,571,338</u>	<u>14,343</u>	<u>1,585,681</u>
Revenues over (under) expenditures	<u>(1,585,681)</u>	<u>(1,571,338)</u>	<u>(14,343)</u>	<u>(1,585,681)</u>
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	1,650,000	-	1,650,000	1,650,000
Transfers in	1,650,000	1,650,000	-	1,650,000
Transfer out	<u>(1,714,319)</u>	<u>-</u>	<u>(1,714,319)</u>	<u>(1,714,319)</u>
Total other financing sources (uses)	<u>1,585,681</u>	<u>1,650,000</u>	<u>(64,319)</u>	<u>1,585,681</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 78,662</u>	<u>\$ (78,662)</u>	<u>\$ -</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

## CAPITAL PROJECT FUND - BETHPAGE SIDEWALKS

## SCHEDULE OF REVENUES AND EXPENDITURES -

## BUDGET AND ACTUAL

## FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
<b>Revenues:</b>				
Proceeds from grants	\$ 648,000	\$ -	\$ -	\$ -
Total revenues	<u>648,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenditures:</b>				
Capital outlay	\$ 810,000	\$ -	\$ -	\$ -
Total expenditures	<u>810,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	(162,000)	-	-	-
<b>Other Financing Sources (Uses):</b>				
Transfers in	<u>162,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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## **Enterprise Funds**

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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 four Enterprise Funds:

*Water and Sewer Fund*  
*Stormwater Fund*  
*Environmental Services Fund*  
*Downtown Kannapolis Fund*

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

*Revenue Bonds 2014 Fund*  
*Mooreville Road Water Main Fund*  
*Davidson Road Water and Sudbury Road Sewer Main*  
*Downtown Water and Sewer Infrastructure*

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

*Downtown Stormwater*

The City maintains three separate Downtown Kannapolis Capital Project Funds for accounting purposes, listed as follows:

*Demonstration Project Parking Deck*  
*Sports and Entertainment Venue*  
*Downtown Streetscape Project*  
*College Station*

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CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
<b>Operating Revenues:</b>			
Charges for services:			
Water and sewer charges	\$ 16,282,200	\$ 15,345,180	\$ (937,020)
Water and sewer taps	785,000	1,164,349	379,349
Penalties	435,000	456,289	21,289
Other	15,000	66,291	51,291
Total operating revenues	<u>17,517,200</u>	<u>17,032,109</u>	<u>(485,091)</u>
<b>Non-Operating Revenues:</b>			
Interest on investments	10,000	73,469	63,469
Total non-operating revenues	<u>10,000</u>	<u>73,469</u>	<u>63,469</u>
Total revenues	<u>17,527,200</u>	<u>17,105,578</u>	<u>(421,622)</u>
<b>Expenditures:</b>			
<b>Administration:</b>			
Salaries and employee benefits	587,452	574,526	12,926
Operating expenditures	255,442	226,521	28,921
Capital outlay	44,000	25,600	18,400
Total	<u>886,894</u>	<u>826,647</u>	<u>60,247</u>
<b>Distribution:</b>			
Salaries and employee benefits	1,559,782	1,351,444	208,338
Operating expenditures	692,400	631,084	61,316
Repairs and maintenance	215,900	186,211	29,689
Capital outlay	992,800	922,048	70,752
Total	<u>3,460,882</u>	<u>3,090,787</u>	<u>370,095</u>
<b>Filter Plant:</b>			
Salaries and employee benefits	647,496	625,522	21,974
Operating expenditures	1,764,901	1,694,883	70,018
Repairs and maintenance	464,800	404,270	60,530
Capital outlay	458,800	227,022	231,778
Total	<u>3,335,997</u>	<u>2,951,697</u>	<u>384,300</u>
<b>General Services</b>	<u>1,616,000</u>	<u>1,616,000</u>	<u>-</u>
<b>Sewage Treatment</b>	<u>3,092,687</u>	<u>3,043,249</u>	<u>49,438</u>
<b>Debt Service:</b>			
Principal	3,025,350	2,467,715	557,635
Interest and fees	2,345,100	1,287,485	1,057,615
Total debt service	<u>5,370,450</u>	<u>3,755,200</u>	<u>1,615,250</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, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Total expenditures	17,762,910	15,283,580	2,479,330
Revenues over (under) expenditures	(235,710)	1,821,998	2,057,708
<b>Other Financing Sources (Uses):</b>			
Transfers out	(114,290)	(114,290)	-
Appropriated fund balance	350,000	-	(350,000)
Total other financing sources (uses)	235,710	(114,290)	(350,000)
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	1,707,708	<u>\$ 1,707,708</u>

**Reconciliation of Budgetary Basis (Modified Accrual)  
to Full Accrual Basis:**

Depreciation and amortization	(2,577,838)
Capital outlay	1,174,670
Payment of debt principal	2,467,715
Change in accrued interest	(307,661)
Change in OPEB liability	269,036
Change in compensated absences	(24,161)
Change in deferred outflows of resources - pensions	(285,120)
Change in deferred inflows of resources - pensions	68,874
Change in deferred outflows of resources - OPEB	142,405
Change in deferred inflows of resources - OPEB	(765,986)
Change in total pension liability	(8,282)
Change in net pension liability	250,642
Interest from capital projects	151,204
Contributions from developer	1,653,470
Loss on asset disposal	<u>(11,820)</u>
Change in net position	<u>\$ 3,904,856</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, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
<b>Revenues:</b>				
Interest income	\$ -	\$ 67,568	\$ 5,185	\$ 72,753
Total revenues	<u>-</u>	<u>67,568</u>	<u>5,185</u>	<u>72,753</u>
<b>Expenditures:</b>				
Capital outlay:				
Albemarle water line	11,111,545	10,380,894	1,617	10,382,511
Meter exchange project	6,138,228	6,086,758	-	6,086,758
Water intake and clear well	1,016,388	1,000,935	-	1,000,935
Irish Buffalo Creek sewer project	741,080	159,371	127,050	286,421
Debt issuance costs	<u>132,319</u>	<u>97,700</u>	<u>1,616</u>	<u>99,316</u>
Total expenditures	<u>19,139,560</u>	<u>17,725,658</u>	<u>130,283</u>	<u>17,855,941</u>
Revenues over (under) expenditures	<u>(19,139,560)</u>	<u>(17,658,090)</u>	<u>(125,098)</u>	<u>(17,783,188)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	539,560	204,910	-	204,910
Issuance of long-term debt	<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>\$ 791,820</u>	<u>\$ (125,098)</u>	<u>\$ 666,722</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, 2018

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
<b>Expenditures:</b>				
Capital outlay	\$ 3,000,000	\$ 216,275	\$ 3,016	\$ 219,291
Total expenditures	<u>3,000,000</u>	<u>216,275</u>	<u>3,016</u>	<u>219,291</u>
Revenues over (under) expenditures	(3,000,000)	(216,275)	(3,016)	(219,291)
<b>Other Financing Sources (Uses):</b>				
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>\$ (216,275)</u>	<u>\$ (3,016)</u>	<u>\$ (219,291)</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - DAVIDSON ROAD WATER AND  
 SUDBURY ROAD SEWER MAIN  
 SCHEDULE OF REVENUES AND EXPENDITURES -  
 BUDGET AND ACTUAL (NON-GAAP)  
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
<b>Revenues:</b>				
Investment earnings	\$ -	\$ -	\$ 24,445	\$ 24,445
Total revenues	<u>-</u>	<u>-</u>	<u>24,445</u>	<u>24,445</u>
<b>Expenditures:</b>				
Capital outlay	<u>6,650,000</u>	<u>1,869,036</u>	<u>3,600,364</u>	<u>5,469,400</u>
Total expenditures	<u>6,650,000</u>	<u>1,869,036</u>	<u>3,600,364</u>	<u>5,469,400</u>
Revenues over (under) expenditures	(6,650,000)	(1,869,036)	(3,575,919)	(5,444,955)
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	<u>6,650,000</u>	<u>-</u>	<u>6,477,000</u>	<u>6,477,000</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (1,869,036)</u>	<u>\$ 2,901,081</u>	<u>\$ 1,032,045</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - DOWNTOWN WATER AND SEWER INFRASTRUCTURE  
 SCHEDULE OF REVENUES AND EXPENDITURES -  
 BUDGET AND ACTUAL (NON-GAAP)  
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
<b>Revenues:</b>				
Investment earnings	\$ -	\$ -	\$ 121,574	\$ 121,574
Total revenues	<u>-</u>	<u>-</u>	<u>121,574</u>	<u>121,574</u>
<b>Expenditures:</b>				
Capital outlay	<u>17,400,000</u>	<u>762,394</u>	<u>5,664,656</u>	<u>6,427,050</u>
Total expenditures	<u>17,400,000</u>	<u>762,394</u>	<u>5,664,656</u>	<u>6,427,050</u>
Revenues over (under) expenditures	(17,400,000)	(762,394)	(5,543,082)	(6,305,476)
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	<u>17,400,000</u>	<u>-</u>	<u>17,400,000</u>	<u>17,400,000</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (762,394)</u>	<u>\$ 11,856,918</u>	<u>\$ 11,094,524</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

## STORMWATER FUND

SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services:			
Sales and services	\$ 2,994,000	\$ 2,940,992	\$ (53,008)
Total revenues	<u>2,994,000</u>	<u>2,940,992</u>	<u>(53,008)</u>
<b>Expenditures:</b>			
Salaries and employee benefits	801,158	706,969	94,189
Operating expenditures	559,237	538,363	20,874
General services	282,000	282,000	-
Capital outlay	66,705	55,117	11,588
Total	<u>1,709,100</u>	<u>1,582,449</u>	<u>126,651</u>
<b>Debt Service:</b>			
Principal	597,008	597,008	-
Interest	687,892	57,796	630,096
Total	<u>1,284,900</u>	<u>654,804</u>	<u>630,096</u>
Total expenditures	<u>2,994,000</u>	<u>2,237,253</u>	<u>756,747</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>703,739</u>	<u>\$ 703,739</u>
<b>Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis:</b>			
Reconciling items:			
Depreciation and amortization		(214,352)	
Capital outlay		55,117	
Interest from capital project		35,568	
Change in interest accrued		(107,213)	
Change in compensated absences		655	
Change in OPEB liability		91,587	
Change in total pension liability		(98,909)	
Change in net pension liability		12,620	
Change in deferred outflows of resources for pensions		(36,531)	
Change in deferred inflows of resources for pensions		15,144	
Change in deferred outflows of resources - OPEB		48,478	
Change in deferred inflows of resources - OPEB		(260,761)	
Gain on asset disposal		21,749	
Payment of debt principal		597,008	
Total		<u>160,160</u>	
Change in net position		<u>\$ 863,899</u>	

## CITY OF KANNAPOLIS, NORTH CAROLINA

**STORMWATER CAPITAL PROJECT - DOWNTOWN STORMWATER  
 SCHEDULE OF REVENUES AND EXPENDITURES -  
 BUDGET AND ACTUAL (NON-GAAP)  
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
<b>Revenues:</b>				
Investment earnings	\$ -	\$ -	\$ 35,568	\$ 35,568
Total revenues	<u>-</u>	<u>-</u>	<u>35,568</u>	<u>35,568</u>
<b>Expenditures:</b>				
Contracted services	600,000	-	230,928	230,928
Capital outlay	<u>6,400,000</u>	<u>271,353</u>	<u>52,217</u>	<u>323,570</u>
Total expenditures	<u>7,000,000</u>	<u>271,353</u>	<u>283,145</u>	<u>554,498</u>
Revenues over (under) expenditures	(7,000,000)	(271,353)	(247,577)	(518,930)
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	<u>7,000,000</u>	<u>-</u>	<u>7,000,000</u>	<u>7,000,000</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (271,353)</u>	<u>\$ 6,752,423</u>	<u>\$ 6,481,070</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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services:			
Sales and services	\$ 2,400,000	\$ 2,446,722	\$ 46,722
Miscellaneous revenue	32,010	86,976	54,966
Total revenues	<u>2,432,010</u>	<u>2,533,698</u>	<u>101,688</u>
<b>Expenditures:</b>			
Salaries and employee benefits	233,491	227,540	5,951
Operating expenditures	162,500	142,812	19,688
Contracted services	3,269,069	3,094,770	174,299
Capital outlay	840,183	840,183	-
Total	<u>4,505,243</u>	<u>4,305,305</u>	<u>199,938</u>
<b>Debt Service:</b>			
Principal	103,517	103,517	-
Interest	12,502	12,501	1
Total	<u>116,019</u>	<u>116,018</u>	<u>1</u>
Total expenditures	<u>4,621,262</u>	<u>4,421,323</u>	<u>199,939</u>
Revenues over (under) expenditures	<u>(2,189,252)</u>	<u>(1,887,625)</u>	<u>301,627</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	1,109,290	1,109,290	-
Issuance of long term debt	1,079,962	1,079,962	-
Total other financing sources (uses)	<u>2,189,252</u>	<u>2,189,252</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>301,627</u>	<u>\$ 301,627</u>
<b>Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:</b>			
Reconciling items:			
Capital outlay		840,183	
Depreciation and amortization		(204,960)	
Change in OPEB liability		28,621	
Change in total pension liability		(68,804)	
Change in net pension liability		(45,882)	
Change in interest accrued		(4,658)	
Change in deferred outflows of resources pensions		34,757	
Change in deferred inflows of resources pensions		(3,393)	
Change in deferred outflows of resources - OPEB		15,149	
Change in deferred inflows of resources - OPEB		(81,488)	
Change in compensated absences		(5,539)	
Debt issued		(1,079,962)	
Payment of debt principal		103,517	
Total		<u>(472,459)</u>	
Change in net position		<u>\$ (170,832)</u>	

## CITY OF KANNAPOLIS, NORTH CAROLINA

**DOWNTOWN KANNAPOLIS FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services:			
Sales and services	\$ 877,500	\$ 840,734	\$ (36,766)
Investment earnings	-	13,824	13,824
Miscellaneous revenue	142,389	100,000	242,389
Total revenues	<u>1,019,889</u>	<u>954,558</u>	<u>219,447</u>
<b>Expenditures:</b>			
Operating expenditures	714,189	606,925	107,264
Contracted services	326,300	256,474	69,826
Capital outlay	1,019,920	1,015,362	4,558
Total	<u>2,060,409</u>	<u>1,878,761</u>	<u>181,648</u>
<b>Debt Service:</b>			
Principal	734,000	734,000	-
Interest and fees	537,200	525,604	11,596
Total	<u>1,271,200</u>	<u>1,259,604</u>	<u>11,596</u>
Total expenditures	<u>3,331,609</u>	<u>3,138,365</u>	<u>193,244</u>
Revenues over (under) expenditures	<u>(2,311,720)</u>	<u>(2,183,807)</u>	<u>127,913</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	1,206,200	1,206,200	-
Debt issued	895,000	895,000	-
Appropriated fund balance	210,520	-	(210,520)
Total other financing sources (uses)	<u>2,311,720</u>	<u>2,101,200</u>	<u>(210,520)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(82,607)</u>	<u>\$ (82,607)</u>
<b>Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:</b>			
Reconciling items:			
Capital outlay		1,015,362	
Depreciation and amortization		(100,146)	
Change in accrued interest		(149,881)	
Interest from capital projects		35,614	
Debt issued		(895,000)	
Payment of debt principal		734,000	
Total		<u>639,949</u>	
Change in net position		<u>\$ 557,342</u>	



## CITY OF KANNAPOLIS, NORTH CAROLINA

**DOWNTOWN CAPITAL PROJECT - DEMONSTRATION PROJECT PARKING DECK**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
<b>Expenditures:</b>				
Contracted services	\$ 600,000	\$ 48,500	\$ -	\$ 48,500
Capital outlay	<u>11,000,000</u>	<u>421,526</u>	<u>245,018</u>	<u>666,544</u>
Total expenditures	<u>11,600,000</u>	<u>470,026</u>	<u>245,018</u>	<u>715,044</u>
Revenues over (under) expenditures	(11,600,000)	(470,026)	(245,018)	(715,044)
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	<u>11,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (470,026)</u>	<u>\$ (245,018)</u>	<u>\$ (715,044)</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

**DOWNTOWN CAPITAL PROJECT - SPORTS AND ENTERTAINMENT VENUE**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>
<b>Expenditures:</b>				
Contracted services	\$ 2,900,000	\$ 612,531	\$ 1,900,021	\$ 2,512,552
Capital outlay	<u>100,000</u>	<u>5,300</u>	<u>56,522</u>	<u>61,822</u>
Total expenditures	<u>3,000,000</u>	<u>617,831</u>	<u>1,956,543</u>	<u>2,574,374</u>
Revenues over (under) expenditures	(3,000,000)	(617,831)	(1,956,543)	(2,574,374)
<b>Other Financing Sources (Uses):</b>				
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>\$ (617,831)</u>	<u>\$ (1,956,543)</u>	<u>\$ (2,574,374)</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

**DOWNTOWN CAPITAL PROJECT - DOWNTOWN STREETScape PROJECT**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
<b>Revenues:</b>				
Investment earnings	\$ -	\$ -	\$ 17,170	\$ 17,170
Total revenues	<u>-</u>	<u>-</u>	<u>17,170</u>	<u>17,170</u>
<b>Expenditures:</b>				
Capital outlay	<u>4,000,000</u>	<u>111,097</u>	<u>3,050,946</u>	<u>3,162,043</u>
Total expenditures	<u>4,000,000</u>	<u>111,097</u>	<u>3,050,946</u>	<u>3,162,043</u>
Revenues over (under) expenditures	(4,000,000)	(111,097)	(3,033,776)	(3,144,873)
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	<u>4,000,000</u>	<u>-</u>	<u>4,526,662</u>	<u>4,526,662</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (111,097)</u>	<u>\$ 1,492,886</u>	<u>\$ 1,381,789</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

**DOWNTOWN CAPITAL PROJECT - COLLEGE STATION**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
<b>Revenues:</b>				
Investment earnings	\$ -	\$ -	\$ 18,444	\$ 18,444
Total revenues	<u>-</u>	<u>-</u>	<u>18,444</u>	<u>18,444</u>
<b>Expenditures:</b>				
Capital outlay	6,000,000	-	4,752,390	4,752,390
Total expenditures	<u>6,000,000</u>	<u>-</u>	<u>4,752,390</u>	<u>4,752,390</u>
Revenues over (under) expenditures	(6,000,000)	-	(4,733,946)	(4,733,946)
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	6,000,000	-	6,000,000	6,000,000
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,266,054</u>	<u>\$ 1,266,054</u>

## **Additional Financial Data**

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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**

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## CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
JUNE 30, 2018

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2017</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2018</u>
2017 - 2018	\$ -	\$ 25,355,347	\$ 25,000,952	\$ 354,395
2016 - 2017	366,400	-	235,182	131,218
2015 - 2016	158,680	-	53,447	105,233
2014 - 2015	99,076	-	20,164	78,912
2013 - 2014	95,558	-	26,190	69,368
2012 - 2013	67,676	-	24,770	42,906
2011 - 2012	54,332	-	8,322	46,010
2010 - 2011	51,651	-	9,780	41,871
2009 - 2010	36,705	-	7,559	29,146
2008 - 2009	22,353	-	3,060	19,293
2007 - 2008	17,299	-	17,299	-
Total	<u>\$ 969,730</u>	<u>\$ 25,355,347</u>	<u>\$ 25,406,725</u>	<u>918,352</u>
Less: Allowance for uncollectible accounts				<u>495,936</u>
Ad valorem taxes receivable - net				<u>\$ 422,416</u>
<b>Reconciliation with Revenues:</b>				
Ad valorem taxes - General Fund				\$ 25,435,224
Reconciling items:				
Penalties and interest				(125,961)
Discounts				19,250
Taxes written off - state statute				17,299
Miscellaneous adjustment				<u>60,913</u>
Total collections and credits				<u>\$ 25,406,725</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY  
FOR THE YEAR ENDED JUNE 30, 2018

	City-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property taxed at current year's rate	\$4,003,553,662	\$ 0.6300	\$ 25,222,388	\$22,927,443	\$2,294,945
Penalties	-		13,762	13,762	-
Total	<u>4,003,553,662</u>		<u>25,236,150</u>	<u>22,941,205</u>	<u>2,294,945</u>
<b>Discoveries:</b>					
Current year taxes	12,708,754	0.6300	80,065	80,065	-
Prior year taxes	14,439,448	0.6300	90,969	90,969	-
Penalties	-		16,907	16,907	-
Total	<u>27,148,202</u>		<u>187,941</u>	<u>187,941</u>	<u>-</u>
<b>Releases:</b>					
Property taxed at current year's rate	(10,342,563)	0.6300	(65,158)	(65,158)	-
Property taxed at prior year's rate	<u>(569,249)</u>	0.6300	<u>(3,586)</u>	<u>(3,586)</u>	<u>-</u>
Total	<u>(10,911,812)</u>		<u>(68,744)</u>	<u>(68,744)</u>	<u>-</u>
Total property valuation	<u>\$ 4,019,790,052</u>				
<b>Net Levy</b>			25,355,347	23,060,402	2,294,945
Less uncollected taxes at June 30, 2018			<u>354,395</u>	<u>354,395</u>	<u>-</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 25,000,952</u>	<u>\$ 22,706,007</u>	<u>\$ 2,294,945</u>
<b>Percent Current Year Collected</b>			<u>98.60%</u>	<u>98.46%</u>	<u>100.00%</u>



**CITY OF KANNAPOLIS, NORTH CAROLINA**

**ANALYSIS OF CURRENT TAX LEVY  
SECONDARY MARKET DISCLOSURES  
FOR THE YEAR ENDED JUNE 30, 2018**

**Assessed Valuation:**

Assessment Ratio (1)	<u>100.00%</u>
Real property	\$ 3,365,940,833
Personal property	570,541,905
Public service companies (2)	<u>83,307,314</u>
Total assessed valuation	<u>\$ 4,019,790,052</u>
Tax Rate per \$100	<u>0.6300</u>
Levy (includes discoveries, releases, penalties, and abatements)	<u>\$ 25,355,347</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, 2018

<u>Business</u>	<u>Type of Enterprise</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Castle & Cooke NCRC	Real Estate	\$ 199,887,760	4.90%
Castle & Cooke LLC	Real Estate	65,777,483	1.61%
6200 GLEN AFTON LLC	Real Estate	44,000,680	1.08%
GATEWAY AFTON RIDGE INC	Retail	40,812,800	1.00%
Trinity of Cabarrus LTD /Shoe Show	Shoe Distribution	36,898,650	0.90%
AFTON RIDGE APARTMENTS LLC	Real Estate	36,382,190	0.89%
DUKE ENERGY CORP	Utility	34,062,480	0.83%
Integra Springs LLC	Real Estate	33,805,480	0.83%
Wachovia Development Corp	Real Estate	31,112,490	0.76%
KBS LEGACY PARTNERS GRAND LLC	Real Estate	<u>28,772,370</u>	<u>0.71%</u>
Total		<u>\$ 551,512,383</u>	<u>13.52%</u>

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

## **Statistical Section**

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- 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.
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CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 1

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Governmental activities</b>										
Invested in capital assets, net of related debt	\$ 111,834	\$ 112,112	\$ 103,739	\$ 104,875	\$ 105,486	\$ 110,812	\$ 115,035	\$ 110,342	\$ 115,399	\$ 116,405
Restricted	359	650	3,555	3,643	3,242	9,131	3,909	3,626	8,591	9,291
Unrestricted	7,108	6,242	1,424	(1,135)	640	(6,850)	(2,942)	1,750	(11,002)	(38,986)
<b>Total governmental activities net position</b>	<b>\$ 119,301</b>	<b>\$ 119,004</b>	<b>\$ 108,718</b>	<b>\$ 107,383</b>	<b>\$ 109,368</b>	<b>\$ 113,093</b>	<b>\$ 116,003</b>	<b>\$ 115,718</b>	<b>\$ 112,988</b>	<b>\$ 86,710</b>
<b>Business-type activities</b>										
Invested in capital assets, net of related debt	\$ 46,667	\$ 47,302	\$ 54,488	\$ 57,456	\$ 58,647	\$ 60,310	\$ 61,843	\$ 62,887	\$ 71,696	\$ 101,928
Restricted	-	738	3,791	-	-	-	-	-	-	-
Unrestricted	6,751	8,151	3,018	6,252	4,917	6,551	6,564	9,331	5,054	(25,870)
<b>Total business-type activities net position</b>	<b>\$ 53,418</b>	<b>\$ 56,191</b>	<b>\$ 61,297</b>	<b>\$ 63,708</b>	<b>\$ 63,564</b>	<b>\$ 66,861</b>	<b>\$ 66,304</b>	<b>\$ 72,218</b>	<b>\$ 76,750</b>	<b>\$ 76,058</b>
<b>Primary government</b>										
Invested in capital assets, net of related debt	\$ 158,501	\$ 159,414	\$ 158,227	\$ 162,331	\$ 164,133	\$ 171,122	\$ 176,879	\$ 173,229	\$ 187,095	\$ 218,333
Restricted	359	1,388	7,346	3,643	3,242	9,131	3,909	3,626	8,591	9,291
Unrestricted	13,859	14,393	4,442	5,117	5,557	(299)	3,621	11,081	(5,948)	(64,856)
<b>Total primary government net position</b>	<b>\$ 172,719</b>	<b>\$ 175,195</b>	<b>\$ 170,015</b>	<b>\$ 171,091</b>	<b>\$ 172,932</b>	<b>\$ 179,954</b>	<b>\$ 184,410</b>	<b>\$ 187,936</b>	<b>\$ 189,738</b>	<b>\$ 162,768</b>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 2

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Expenses</b>										
Governmental activities:										
General government	\$ 5,217	\$ 6,573	\$ 2,876	\$ 8,103	\$ 7,777	\$ 9,674	\$ 5,292	\$ 744	\$ 7,325	\$ 10,748
Public safety	10,107	11,275	13,398	12,522	15,028	15,708	14,412	18,549	17,463	18,459
Public works	8,604	6,943	8,711	7,668	5,492	5,639	5,037	10,485	7,236	6,330
Community development	8,453	4,359	14,578	1,533	1,754	1,760	1,829	1,420	1,432	1,685
Parks and recreation	1,268	1,545	1,941	1,931	2,172	2,101	2,365	2,479	1,43	2,783
Interest on long-term debt	607	551	1,868	2,276	2,283	2,205	3,026	3,110	2,982	3,328
Total governmental activities	34,256	31,246	43,372	34,033	34,506	37,087	31,962	36,787	36,581	43,333
Business-type activities:										
Water and sewer	11,711	11,260	11,185	13,045	11,427	12,569	12,363	14,130	14,819	14,891
Stormwater	1,485	1,405	1,270	1,436	1,691	1,545	1,552	1,684	1,901	2,113
Environmental services	-	-	-	427	3,314	3,355	3,523	3,632	3,645	3,814
Downtown	-	-	-	-	-	-	-	1,630	1,561	1,639
Total business-type activities	13,196	12,665	12,455	14,908	16,432	17,469	17,437	21,076	21,926	22,457
Total primary government expenses	\$ 47,452	\$ 43,911	\$ 55,827	\$ 48,941	\$ 50,938	\$ 54,556	\$ 49,400	\$ 57,863	\$ 58,507	\$ 65,790
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 1,157	\$ 1,183	\$ 2,310	\$ 2,422	\$ 2,118	\$ 87	\$ 62	\$ 94	\$ 118	\$ 155
Public safety	124	152	135	135	118	133	102	246	142	160
Public works	56	8	98	44	25	13	62	144	84	74
Community development	184	110	59	33	136	291	99	118	110	150
Parks and recreation	249	260	258	275	279	256	257	132	280	444
Interest on long-term debt	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions:										
General government	95	33	204	27	65	933	769	829	1,376	974
Public safety	88	28	602	29	970	791	212	-	92	39
Public works	-	-	-	-	-	-	-	-	-	-
Community development	200	-	-	-	-	-	104	13	68	71
Parks and recreation	8	-	-	-	-	-	-	67	-	-
Capital grants and contributions:										
General government	1,206	590	366	3	1,536	5,499	1,520	1,523	1,522	1,524
Public safety	18	128	176	382	299	2,722	-	-	-	-
Public works	1,935	1,508	1,481	1,731	1,468	1,264	1,572	1,590	1,324	1,316
Community development	1,004	345	958	445	358	506	686	506	355	322
Parks and recreation	777	32	-	-	-	-	-	457	121	66
Total governmental activities program revenues	7,101	4,377	6,647	5,526	7,372	12,495	5,445	5,213	5,592	5,295

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)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Program Revenues (Continued):</b>										
Business-type activities										
Charges for services:										
Water and sewer	12,050	12,146	13,135	13,627	13,661	14,573	13,708	16,315	15,803	17,032
Stormwater	1,389	1,398	1,472	1,504	1,671	1,699	1,773	2,449	2,372	2,941
Environmental services	-	-	35	631	1,264	1,274	1,609	1,932	2,366	2,534
Downtown	-	-	-	-	-	-	-	764	913	841
Operating grants and contributions:										
Downtown	-	-	-	-	-	-	-	-	-	100
Capital grants and contributions:										
Water and sewer	609	2,084	2,775	1,137	237	1,655	1,330	1,205	1,116	1,653
Environmental services	-	-	-	67	3	-	-	-	-	-
Total business-type activities program revenues	14,048	15,628	17,417	16,966	16,836	19,201	18,420	22,665	22,570	25,101
Total primary government program revenues	\$ 21,149	\$ 20,005	\$ 24,064	\$ 22,492	\$ 24,208	\$ 31,696	\$ 23,865	\$ 27,878	\$ 28,162	\$ 30,396
<b>Net (Expense)/Revenue</b>										
Governmental activities	\$ (27,154)	\$ (26,869)	\$ (36,725)	\$ (28,505)	\$ (27,132)	\$ (24,592)	\$ (26,517)	\$ (31,574)	\$ (32,589)	\$ (38,038)
Business-type activities	851	2,963	4,962	2,058	401	1,732	983	1,589	644	2,644
Total primary government net (expense)/revenue	\$ (26,303)	\$ (23,906)	\$ (31,763)	\$ (26,447)	\$ (26,731)	\$ (22,860)	\$ (25,534)	\$ (29,985)	\$ (31,945)	\$ (35,394)
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Taxes:										
Ad valorem taxes	\$ 17,165	\$ 18,252	\$ 18,379	\$ 18,585	\$ 19,274	\$ 19,935	\$ 21,586	\$ 23,620	\$ 24,802	\$ 25,379
Sales tax	4,979	5,309	5,218	5,698	6,212	6,486	7,341	8,168	9,246	9,561
Other taxes and licenses	701	797	752	786	944	1,189	946	758	685	693
Franchise tax	1,724	1,779	1,830	1,825	1,840	1,906	2,476	2,749	2,727	2,716
Unrestricted intergovernmental revenues	209	69	228	515	186	195	209	195	211	206
Investment earnings	76	35	32	78	113	125	193	204	299	349
Transfers	83	331	-	(316)	548	(1,520)	(1,100)	(2,360)	(4,941)	(2,201)
Total general revenues and transfers	24,937	26,572	26,439	27,171	29,117	28,316	31,651	33,334	33,029	36,703
Business-type activities:										
Investment earnings	211	140	144	36	3	45	20	13	16	310
Transfers	(83)	(331)	-	316	(548)	1,520	1,100	2,360	4,941	2,201
Total business-type activities	\$ 128	\$ (191)	\$ 144	\$ 352	\$ (545)	\$ 1,565	\$ 1,120	\$ 2,373	\$ 4,957	\$ 2,511
<b>Change in Net Position</b>										
Governmental activities	\$ (2,217)	\$ (297)	\$ (10,286)	\$ (1,334)	\$ 1,985	\$ 3,724	\$ 5,135	\$ 1,760	\$ 440	\$ (1,335)
Business-type activities	979	2,772	5,106	2,410	(144)	3,297	2,103	3,962	5,601	5,155
Total primary government	\$ (1,238)	\$ 2,475	\$ (5,180)	\$ 1,076	\$ 1,841	\$ 7,021	\$ 7,238	\$ 5,722	\$ 6,041	\$ 3,820

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 3

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>General Fund:</b>										
Reserved	\$ 1,905	-	-	\$ -	-	\$ -	-	\$ -	-	\$ -
Unreserved	3,730	-	-	-	-	-	-	-	-	-
Nonspendable	-	403	453	35	50	53	65	220	264	128
Committed	-	-	-	-	-	-	-	46	146	237
Restricted	-	2,100	2,990	2,518	2,285	11,013	7,712	7,471	7,765	8,827
Unassigned	-	3,874	2,677	4,135	6,706	3,069	9,860	12,016	9,911	9,609
<b>Total General Fund</b>	<b>\$ 5,635</b>	<b>\$ 6,377</b>	<b>\$ 6,120</b>	<b>\$ 6,688</b>	<b>\$ 9,041</b>	<b>\$ 14,135</b>	<b>\$ 17,637</b>	<b>\$ 19,753</b>	<b>\$ 18,086</b>	<b>\$ 18,801</b>
<b>NCR Project Development</b>										
Financing 2010 Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	21,431	11,336	5,692	-	-	-	-	-
<b>Total NCR Financing 2010 Fund</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 21,431</b>	<b>\$ 11,336</b>	<b>\$ 5,692</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Pine Street Assisted Living Facility</b>										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,722	\$ -	\$ -	\$ -	\$ -
Unassigned	-	-	-	-	-	(2,724)	-	-	-	-
<b>Total Pine Street Assisted Living Facility</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>City Office/Public Safety Building</b>										
Unassigned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,802)	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-	-	13,206	515	-	-
<b>Total City Office/Public Safety Building</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,404</b>	<b>\$ 515</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fire Station Improvements</b>										
Unassigned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-	-	-	-	-	10,419
<b>Total City Office/Public Safety Building</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,419</b>
<b>All Other Governmental Funds</b>										
Reserved	\$ 275	-	-	\$ -	-	\$ -	-	\$ -	-	\$ -
Unreserved report in:										
Special revenue funds	1,597	-	-	-	-	-	-	-	-	-
Capital project funds	1,054	-	-	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	187	-	-
Restricted	-	1,999	1,036	1,124	954	5,321	1,175	1,262	1,167	1,023
Committed	-	-	1,250	308	3,680	93	214	218	620	440
Unassigned	-	-	-	-	-	-	(185)	(285)	(182)	(5)
Assigned	-	-	(396)	(224)	(29)	(29)	-	-	-	-
<b>Total all other governmental funds</b>	<b>\$ 2,926</b>	<b>\$ 1,999</b>	<b>\$ 1,890</b>	<b>\$ 1,208</b>	<b>\$ 4,605</b>	<b>\$ 5,385</b>	<b>\$ 1,204</b>	<b>\$ 1,382</b>	<b>\$ 1,605</b>	<b>\$ 1,458</b>



CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenues:</b>										
Ad valorem taxes	\$17,589	\$17,907	\$18,235	\$18,600	\$19,032	\$ 20,243	\$ 21,728	\$ 23,809	\$ 24,859	\$ 25,435
Other taxes and licenses	5,680	6,106	5,971	6,484	7,156	7,675	8,287	8,926	9,848	10,168
Unrestricted intergovernmental revenues	1,933	1,848	2,058	2,340	2,028	2,100	2,685	2,945	3,021	3,009
Restricted intergovernmental revenues	3,676	2,322	3,635	2,129	4,247	6,784	3,976	3,570	3,508	3,272
Sales and services	1,306	1,195	912	2,101	1,767	780	594	745	744	993
Investment earnings	75	35	32	78	113	125	193	204	299	349
Miscellaneous	739	1,254	2,038	808	909	933	887	908	1,350	1,040
<b>Total revenues</b>	<b>30,998</b>	<b>30,667</b>	<b>32,881</b>	<b>32,540</b>	<b>35,252</b>	<b>38,640</b>	<b>38,350</b>	<b>41,107</b>	<b>43,629</b>	<b>44,266</b>
<b>Expenditures:</b>										
General Government	4,933	6,579	7,399	7,141	8,358	6,534	5,129	6,122	7,132	10,455
Public safety	11,608	10,949	11,988	11,676	13,865	13,461	15,310	15,440	15,706	17,878
Public works	6,203	5,337	6,489	5,831	3,088	3,449	4,022	4,343	4,282	4,544
Community development	778	731	731	1,679	1,702	1,760	1,829	1,375	1,432	1,684
Parks and recreation	1,502	1,340	1,444	4,474	1,549	1,665	1,829	1,655	2,573	2,408
Capital Outlay	7,913	3,808	13,947	10,294	3,527	4,764	21,245	11,618	2,315	1,184
Debt service:										
Principal	3,049	3,206	2,456	2,405	8,803	3,050	2,852	3,693	4,717	4,374
Interest and fees	626	574	1,838	1,735	2,368	2,257	2,814	3,146	2,826	3,111
<b>Total expenditures</b>	<b>36,612</b>	<b>32,524</b>	<b>46,292</b>	<b>45,235</b>	<b>43,260</b>	<b>36,940</b>	<b>55,030</b>	<b>47,392</b>	<b>40,983</b>	<b>45,638</b>
Excess of revenues over (under) expenditures	(5,614)	(1,857)	(13,411)	(12,695)	(8,008)	1,700	(16,680)	(6,285)	2,646	(1,372)
<b>Other Financing Sources (Uses)</b>										
Transfers from other funds	664	2,071	1,080	704	6,863	6,628	893	840	2,326	862
Transfers to other funds	(581)	(1,740)	(1,080)	(373)	(6,315)	(8,148)	(1,993)	(3,174)	(7,267)	(3,063)
Proceeds of installment financing	2,087	1,340	971	3,000	7,566	-	-	-	335	14,560
Debt service reserve	-	-	-	(19)	-	-	-	-	-	-
Capitalized interest	-	-	(140)	(826)	-	-	-	-	-	-
Payments to bondholders	-	-	(1,330)	-	-	-	-	-	-	-
Premium on long-term debt	-	-	789	-	-	-	2,303	-	-	-
Proceeds of limited obligation bonds	-	-	34,185	-	-	-	25,990	-	-	-
<b>Total other financing sources (uses)</b>	<b>2,170</b>	<b>1,671</b>	<b>34,475</b>	<b>2,486</b>	<b>8,114</b>	<b>(1,520)</b>	<b>27,193</b>	<b>(2,334)</b>	<b>(4,606)</b>	<b>12,359</b>
<b>Net change in fund balances</b>	<b>\$(3,444)</b>	<b>\$(186)</b>	<b>\$ 21,064</b>	<b>\$(10,209)</b>	<b>\$ 106</b>	<b>\$ 180</b>	<b>\$ 10,513</b>	<b>\$(8,619)</b>	<b>\$(1,960)</b>	<b>\$ 10,987</b>
Debt service as a percentage of noncapital expenditures	12.27%	12.68%	10.66%	9.40%	30.05%	15.65%	18.10%	26.57%	21.00%	18.45%

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

## ASSESSED VALUE OF TAXABLE PROPERTY

Last Ten Fiscal Years

Fiscal Year	Real Property	Personal Property	Public Service Companies <sup>(2)</sup>	Total Assessed Value	Total Direct Tax Rate <sup>(3)</sup>
2009 <sup>(1)</sup>	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 <sup>(1)</sup>	3,535,916,122	191,820,297	64,092,442	3,791,828,861	0.490
2013 <sup>(1)</sup>	3,090,633,951	207,389,228	64,386,561	3,362,409,740	0.560
2014	3,031,530,139	368,707,556	68,379,259	3,468,616,954	0.560
2015	3,094,058,468	419,316,615	70,827,286	3,584,202,369	0.600
2016 <sup>(1)</sup>	3,193,371,079	470,988,564	81,056,490	3,745,416,133	0.630
2017	3,318,942,258	527,476,822	83,163,104	3,929,582,184	0.630
2018	3,365,940,833	570,541,905	83,307,314	4,019,790,052	0.630

Notes: <sup>(1)</sup> Increases in FY 2009 and FY 2013 include Cabarrus County revaluation. Increase in FY 2008, FY 2012 and FY 2016 includes Rowan County revaluation

<sup>(2)</sup> Public service companies valuations are provided to the City by the North Carolina Department of Revenue.

These amounts included both real and personal property

<sup>(3)</sup> 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)

	2009 <sup>(2)</sup>	2010	2011	2012 <sup>(3)</sup>	2013 <sup>(4)</sup>	2014	2015	2016 <sup>(5)</sup>	2017 <sup>(6)</sup>	2018
<b>City of Kannapolis:</b>										
General fund	0.4900	0.4900	0.4900	0.4900	0.5600	0.5600	0.6000	0.6300	0.6300	0.6300
<b>County Rates:</b>										
Cabarrus	0.6300	0.6300	0.6300	0.6300	0.7000	0.7000	0.7000	0.7000	0.7000	0.7000
Rowan	0.5950	0.5950	0.5950	0.6225	0.6225	0.6225	0.6625	0.6625	0.6625	0.6625

- Notes:**
- <sup>(2)</sup> Real property was revalued by Cabarrus County on January 1, 2008
  - <sup>(3)</sup> Real property was revalued by Rowan County on January 1, 2011
  - <sup>(4)</sup> Real property was revalued by Cabarrus County on January 1, 2012
  - <sup>(5)</sup> Real property was revalued by Rowan County on January 1, 2015
  - <sup>(6)</sup> Real property was revalued by Cabarrus County on January 1, 2016

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 7

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

Taxpayer	Type of Business	Fiscal Year 2018			Fiscal Year 2009		
		Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Castle & Cooke NCRC	Real Estate	199,887,760	1	4.97%	-	-	-
Castle & Cooke LLC	Real Estate	65,777,483	2	1.64%	152,281,963	1	4.29%
6200 Glen Afton LLC	Real Estate	44,000,680	3	1.09%	45,274,300	4	1.28%
Gateway Afton Ridge, Inc	Retail	40,812,800	4	1.02%	-	-	-
Trinity of Cabarrus LTD /Shoe Show	Shoe Distribution	36,898,650	5	0.92%	37,576,924	6	1.06%
Afton Ridge Apartments, LLC	Real Estate	36,382,190	6	0.91%	-	-	-
Duke Energy Corp	Utility	34,062,480	7	0.85%	24,771,365	9	0.70%
Integra Springs LLC	Real Estate	33,805,480	8	0.84%	-	-	-
Wachovia Development Corp	Real Estate	31,112,490	9	0.77%	-	-	-
KBS Legacy Partners Grand LLC	Real Estate	28,772,370	10	0.72%	-	-	-
David Murdock	Real Estate	-	-	-	58,696,759	2	1.65%
Atlantic America Properties	Real Estate	-	-	-	50,427,427	3	1.42%
Citicorp North America	Warehousing	-	-	-	44,305,730	5	1.25%
Dayton Hudson Corp. D/B/A Target	Retail	-	-	-	26,096,445	7	0.74%
Kellswater	Real Estate	-	-	-	25,458,320	8	0.72%
D.R. Horton, Inc.	Real Estate	-	-	-	20,456,350	10	0.58%
<b>Total</b>		<b>\$ 551,512,383</b>		<b>13.72%</b>	<b>\$ 485,345,583</b>		<b>13.69%</b>

**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
2009	17,313,980	329,399	(25,459)	17,617,920	17,177,163	97.50%	421,464	17,598,627	99.89%
2010	18,211,307	171,026	(192,864)	18,189,469	17,471,125	96.05%	689,198	18,160,323	99.84%
2011	18,385,221	80,004	(72,720)	18,392,505	17,638,052	95.90%	712,582	18,350,634	99.77%
2012	18,661,612	115,408	(35,161)	18,741,859	18,053,024	96.32%	642,825	18,695,849	99.75%
2013	19,281,030	197,718	(148,628)	19,330,120	18,620,309	96.33%	666,905	19,287,214	99.78%
2014	20,012,799	87,303	(83,385)	20,016,717	19,430,246	97.07%	517,103	19,947,349	99.65%
2015	21,392,417	190,276	(47,143)	21,535,550	21,050,962	97.75%	405,676	21,456,638	99.63%
2016	23,502,259	137,451	(29,535)	23,610,175	23,193,274	98.23%	311,668	23,504,942	99.55%
2017	24,743,633	192,065	(148,154)	24,787,544	24,421,144	98.52%	235,182	24,656,326	99.47%
2018	25,236,150	187,941	(68,744)	25,355,347	25,000,952	98.60%	-	25,000,952	98.60%

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 <sup>(1)</sup>	Per Capita <sup>(2)</sup>
2009	-	0.00%	-
2010	-	0.00%	-
2011	-	0.00%	-
2012	-	0.00%	-
2013	-	0.00%	-
2014	-	0.00%	-
2015	-	0.00%	-
2016	-	0.00%	-
2017	-	0.00%	-
2018	-	0.00%	-

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

<sup>(1)</sup> See Table 5 for total assessed value of property.

<sup>(2)</sup> See Table 14 for population data.

CITY OF KANANPOLIS, NORTH CAROLINA

TABLE 10

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Business-type Activities				Total Primary Government	Per Capita <sup>(1)</sup>	Percentage of Personal Income <sup>(1)</sup>
	Installment Obligations	U.S. Gov. Guaranteed Notes	Limited Obligation Bonds	Limited Obligation Bond Premium	Installment Obligations	Special Obligation Bonds	W/S Revenue Bonds	Limited Obligation Bonds			
2009	18,861,800	1,672,000	-	-	5,495,178	-	25,954,117	-	51,983,095	1,179	1.03%
2010	17,154,850	1,513,000	-	-	6,261,384	-	23,477,283	-	48,406,517	1,078	0.90%
2011	14,503,541	1,349,000	34,184,500	-	6,114,144	-	21,607,221	815,500	78,573,906	1,835	1.47%
2012	11,357,867	1,180,000	34,425,000	-	8,718,447	-	17,620,006	-	73,301,320	1,695	1.35%
2013	11,594,133	1,006,000	33,125,000	-	9,144,385	-	16,366,902	-	71,236,420	1,645	1.26%
2014	10,163,453	827,000	31,685,000	-	7,929,905	-	33,224,348	-	83,829,706	1,915	1.37%
2015	9,850,171	643,000	55,320,000	2,272,933	7,022,766	-	31,325,158	-	106,434,028	2,399	1.69%
2016	8,622,690	453,000	53,045,000	2,151,700	5,857,523	11,000,000	29,365,628	-	110,495,541	2,395	1.75%
2017	7,751,829	250,000	49,940,000	2,030,477	5,279,889	10,266,000	27,333,327	-	102,851,522	2,150	1.43%
2018	10,083,071	200,000	57,845,000	1,909,254	8,811,301	9,532,000	49,112,298	14,900,000	152,392,924	3,122	*

Notes:

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

<sup>(1)</sup> 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 2016 personal income not available to calculate fiscal year 2016 percentage of personal income.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 11

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

As of June 30, 2018

(Dollars in Thousands)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
<b>Debt repaid with property taxes</b>			
Cabarrus County	415,182	16.24%	67,426
Rowan County	58,916	4.07%	2,398
Subtotal, overlapping debt			<u>69,823</u>
<b>City direct debt</b>			<u>68,128</u>
<b>Total direct and overlapping debt</b>			<u><u>\$137,951</u></u>

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

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

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



CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 12

LEGAL DEBT MARGIN INFORMATION  
Last Ten Fiscal Years  
(Dollars in Thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Assessed Value of Property	\$ 3,548,651	\$ 3,706,995	\$ 3,737,493	\$ 3,791,828	\$ 3,362,410	\$ 3,468,617	\$ 3,584,202	\$ 3,745,416	\$ 3,929,582	\$ 4,019,790
Debt Limit, 8% of Assessed Value (Statutory Limitation)	283,892	296,560	298,999	303,346	268,993	277,489	286,736	299,633	314,367	321,583
Debt applicable to debt limitations:										
Special obligation bonds	-	-	-	-	-	-	-	11,000	10,266	9,532
Limited obligation bonds	-	-	35,000	34,425	33,125	31,685	57,593	55,197	49,940	74,654
Installment obligations	26,028	24,929	21,967	21,256	21,744	18,920	17,516	14,933	13,282	19,094
Less: Amount of bonded debt incurred for water purposes	-	-	-	-	-	-	-	-	-	-
Total net debt applicable to limitations	26,028	24,929	56,967	55,681	54,869	50,605	75,109	81,130	73,488	103,280
Legal debt margin	\$ 257,864	\$ 271,631	\$ 242,032	\$ 247,665	\$ 214,124	\$ 226,884	\$ 211,627	\$ 218,503	\$ 240,879	\$ 218,303
Total net debt applicable to the limit as a percentage of debt limit	9.17%	8.41%	19.05%	18.36%	20.40%	18.24%	26.19%	27.08%	23.38%	32.12%

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.

## PLEDGED - REVENUE COVERAGE

Last Ten Fiscal Years

Fiscal Year	Water and Sewer Revenue Bonds										Coverage
	Utility Service Charges	Less:		Net Available Revenue	Debt Service		Total	Principal	Interest	Total	
		Operating Expenses									
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	13,708,157	7,632,786	6,075,371	2,280,158	1,314,183	3,594,341	1.69				
2016	16,314,943	9,090,114	7,224,829	1,959,530	1,148,822	3,108,352	2.32				
2017	15,814,378	11,181,279	4,633,099	2,032,301	1,082,596	3,114,897	1.49				
2018	17,256,872	10,706,300	6,550,572	2,098,027	1,121,971	3,219,998	2.03				

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.

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Fiscal Years

Year	Population <sup>(1)</sup>		Personal Income <sup>(2)</sup> (Dollars in Thousands)		Per Capita Personal Income <sup>(2)</sup>		Public School Enrollment <sup>(3)</sup>		Unemployment Rate <sup>(4)</sup>	
	Cabarrus County	Rowan County	Cabarrus County	Rowan County	Cabarrus County	Rowan County	Cabarrus County	Rowan County	Cabarrus County	Rowan County
2009	44,104	5,946,765	4,278,802	4,278,802	35,280	30,620	5,117	11.7%	13.0%	
2010	44,891	5,869,800	4,286,389	4,286,389	34,083	30,444	5,203	10.3%	11.6%	
2011	42,828	6,057,692	4,124,902	4,124,902	34,030	29,750	5,239	10.4%	11.6%	
2012	43,242	6,453,148	4,111,873	4,111,873	35,561	29,792	5,290	9.3%	10.3%	
2013	43,312	7,025,450	4,334,051	4,334,051	38,079	31,365	5,442	7.9%	8.8%	
2014	43,782	7,301,723	4,317,017	4,317,017	39,000	31,210	5,554	6.0%	6.5%	
2015	44,359	7,305,647	4,326,891	4,326,891	38,521	34,587	5,707	5.3%	6.0%	
2016	46,144	7,799,648	4,779,187	4,779,187	39,640	34,348	5,829	5.4%	5.8%	
2017	47,839	8,286,025	4,940,633	4,940,633	41,103	35,307	5,249	3.9%	4.3%	
2018	48,806	*	*	*	*	*	5,375	3.7%	4.0%	

\* Information not yet available.

**Notes:** <sup>(1)</sup> 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, 2016, 2017, and 2018 population was estimated from the US Census Bureau

<sup>(2)</sup> 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

2016 figures were determined from Feder Reserve Bank Economic Division

2017 figures were determined from Feder Reserve Bank Economic Division

2018 figures were determined from Feder Reserve Bank Economic Division

<sup>(3)</sup> Kannapolis City Schools

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

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

2016 unemployment rates for Cabarrus and Rowan County were determined by NC. E.S.C as of May 2016

2017 unemployment rates for Cabarrus and Rowan County were determined by Federal Reserve Economic Research Division for June of 2017.

2018 unemployment rates for Cabarrus and Rowan County were determined by Federal Reserve Economic Research Division for June of 2018

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 15

PRINCIPAL EMPLOYERS

Current and Nine Years Ago

Employer	Fiscal Year 2018			Fiscal Year 2009		
	Employees	Rank	Percentage of Total Cabarrus County and Rowan County Employment	Employees	Rank	Percentage of Total Cabarrus County and Rowan County Employment
Kannapolis City Schools	908	1	0.56%	750	1	0.48%
Shoe Show	894	2	0.55%	700	2	0.45%
Cabarrus County Schools	463	3	0.28%	468	3	0.30%
Wayne Brothers	508	4	0.31%	-	-	-
North Carolina Research Campus	285	5	0.18%	-	-	-
City of Kannapolis	349	6	0.21%	353	4	0.23%
Target	236	7	0.15%	227	6	0.14%
Stewart-Haas Racing LLC	370	8	0.23%	-	-	-
Cabarrus Health Alliance	232	9	0.14%	252	5	0.16%
Stanley Works	221	10	0.14%	225	7	0.15%
Food Lion	-	-	-	214	8	0.14%
Rowan Cabarrus Community College	-	-	-	130	10	0.08%
Kannapolis Health Care	-	-	-	155	9	0.10%
<b>Total</b>	<b>3,558</b>		<b>2.19%</b>	<b>2,569</b>		<b>2.22%</b>

For 2009, used Labor Force data from 6/30/09 CAFR.

For 2016, 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

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**TABLE 16**

**PROPERTY VALUES AND CONSTRUCTION  
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Commercial 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			
2018	87	125,834,874	315	45,676,825	171,511,699	7,556,150	179,067,849
2017	94	40,679,619	321	35,912,500	76,592,119	6,735,024	83,327,143
2016	81	57,578,745	305	45,456,760	103,035,505	11,296,388	114,331,893
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

**Source:** Cabarrus County Inspections Department

**FULL-TIME EQUIVALENT COUNTY GOVERNMENT EMPLOYEES BY FUNCTION**  
Last Ten Fiscal Years

Function/Program	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government	30	30	29	29	28	21 <sup>(3)</sup>	31	40 <sup>(4)</sup>	41	43
Public safety	166	168	167	165	187	197	192	196	201	206
Public works admin and engineering	6	6	6	6	7	9	9	9	9	9
Parks and recreation	-	-	-	-	-	10 <sup>(3)</sup>	11	8	9	10
Streets and sign shops	11	11	11	9	8	11	8	12	12	13
Stormwater	13	12	13	13	13	13	13	13	16	16
Environmental	1	1	1	1	1	1	1	1	0	4
Water - Sewer billing and collections	6 <sup>(2)</sup>	5	6	6	7	9	7	7	8	8
Water - Sewer distribution	28	27	27	26	27	28	28	29	29	29
Water treatment plant	10	10	10	10	10	10	10	11	11	11
<b>Total</b>	<b>271</b>	<b>270</b>	<b>270</b>	<b>265</b>	<b>288</b>	<b>309</b>	<b>310</b>	<b>326</b>	<b>336</b>	<b>349</b>

**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.

<sup>(2)</sup> Data shows that in 2009 the City moved the meter readers from WSBC to WSD.

<sup>(3)</sup> 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.

<sup>(4)</sup> Data shows that in 2016 the City implemented a new division for General Services.

**OPERATING INDICATORS BY FUNCTION**  
**Last Ten Fiscal Years**

Function/Program	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>General Government:</b>										
Collection rate for city taxes	97.50%	96.05%	95.90%	96.32%	96.33%	97.07%	97.37%	98.23%	98.52%	98.60%
Applications for employment processed	1,924	1,521	1,851	1,408	1,554	1,467	1,367	1,419	1,912	1,845
Hiring rate	5.30%	5.30%	3.67%	3.27%	4.40%	2.65%	2.12%	8.97%	3.30%	2.39%
<b>Parks and Recreation:</b>										
Concerts presented by the City	14	15	14	12	14	19	19	19	22	23
Shelter reservations	788	973	1,029	943	911	1,580	956	1,021	1,528	1,565
<b>Police:</b>										
Homicide and death investigations	15	12	7	13	55	53	61	71	64	100
Assault investigations	45	66	66	70	34	39	38	49	42	48
<b>Fire:</b>										
Response to all in City incidents within six minutes	85%	90%	4849	4274	90%	83.8%	80.7%	79.0%	85.0%	82.0%
Average response time (minutes) for fire calls	NA	NA	NA	NA	3:49	4:46	4:20	4:19	3:25	3:31
Number of fire inspections for businesses	902	1,136	1,280	1,550	682	1,420	1,689	5,946	1,058	687
<b>Storm water:</b>										
Shoulder work and ditches cleared (miles)	8.50	4.50	4.00	9.00	4.00	4.5	7.8	3.9	1.4	2.1
Drainage structures (repaired & constructed)	65	28	31	54	31	45	46	16	31	37
<b>Streets And Sign Shop:</b>										
Reconstruction resurfacing (miles)	4.89	0.00	0.36	2.83	1.52	3.20	3.65	3.65	3.84	2.94
Pavement repairs (including potholes)	1,917	1,526	1,538	935	1,242	1,654	4,615	7,370	7,370	5,322
Street name signs installed or repaired	359	154	126	202	760	358	182	218	218	239
Information - signs installed or repaired	458	332	268	466	638	1,060	1,794	1,740	1,740	1,520
<b>Water Sewer Distribution:</b>										
Water services installed	59	32	35	39	54	53	46	46	93	150
Sewer services installed	40	21	4	11	11	55	15	10	54	127

Continued on next page.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 18 (CONTINUED)

OPERATING INDICATORS BY FUNCTION  
Last Ten Fiscal Years

Function/Program	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Water Treatment Plant:										
Total water treated (per billion gallons)	1.370	1.270	1.210	1.230	1.305	1.424	1.100	1.550	1.410	1.290
Unit cost of treatment (\$/1,000 Gal)	1.753	1.670	1.610	1.670	1.358	1.461	1.510	1.490	1.490	1.340
Water Sewer Billing Collections:										
Average number of walk in customers	6,519	6,543	6,662	6,900	6,221	6,145	6,527	6,421	4,180	6,325
Water and Sewer collection percentage	98.02%	97.00%	97.30%	98.80%	97.63%	98.76%	98.00%	97.69%	97.57%	97.80%

Sources: Various County departments.

NOTES:

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



CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 19

CAPITAL ASSET STATISTICS BY FUNCTION  
Last Ten Fiscal Years

Function/Program	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Parks and recreation:</b>										
Park facilities	8	8	8	8	9	8	8	8	8	8
Acreage	114	114	114	114	114	114	114	128	172	172
Picnic shelters	15	15	15	15	15	15	15	15	15	15
Softball fields	3	3	3	3	4	4	4	4	4	4
Playgrounds	5	5	6	6	7	7	7	7	7	7
Soccer fields	1	1	1	1	1	1	1	1	1	1
<b>Fire Protection:</b>										
Stations	5	5	5	5	5	5	5	5	5	5
Fire trucks (pumper)	10	10	10	10	10	9	8	8	8	9
Fire trucks (ladder)	1	2	2	2	2	2	2	2	2	3
<b>Police:</b>										
Patrol cars	60	66	69	65	56	57	59	60	66	66
Total police vehicles	105	106	107	102	104	103	104	109	114	114
<b>Streets:</b>										
Miles of streets	224	224	225	226	226	227	227	227	232	232
<b>Water:</b>										
Miles of water mains	311	326	325	330	329	320	324	324	335	335
<b>Wastewater:</b>										
Miles of sanitary sewers	315	315	325	318	317	325	316	317	325	325
Treatment capacity <sup>(1)</sup>	15	15	15	15	15	27	25	26	27	27

**Sources:** Various City departments.  
<sup>(1)</sup> Data is by Million Gallons (MG)

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## **Compliance Section**

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- 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 State Program; Report On Internal Control Over Compliance; In Accordance With Uniform Guidance and the State Single Audit Implementation Act
  - Schedule of Findings, Responses, and Questioned Costs
  - Schedule of Prior Year Audit Findings
  - Schedule of Expenditures of Federal and State Awards
- 
-

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# 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, 2018, 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 5, 2018.

### **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, North Carolina  
October 5, 2018

# 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 Uniform Guidance 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, 2018. The City of Kannapolis' major state programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

#### **Management's Responsibility**

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards 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 the Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, Uniform Guidance 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, 2018.

### **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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 5, 2018



**CITY OF KANNAPOLIS, NORTH CAROLINA**

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**1. Summary of Auditor's Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? \_\_\_\_\_ Yes   X   No
- Significant deficiencies identified? \_\_\_\_\_ Yes   X   None reported

Non-compliance material to financial statements noted?

\_\_\_\_\_ Yes   X   No

**State Awards**

Internal control over major state programs:

- Material weaknesses identified? \_\_\_\_\_ Yes   X   No
- Significant deficiencies identified? \_\_\_\_\_ 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, RESPONSES, AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**2. Financial Statements Findings**

None.

**3. State Award Findings and Questioned Cost**

None.

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/ Pass-Through Grant Number	Federal (Direct and Pass-Through) Expenditures	State Expenditures	Pass-Through to Subrecipients Expenditures
<b>U.S. Department of Housing and Urban Development:</b>					
<b>Office of Community Planning and Development</b>					
<b>Direct Program:</b>					
CDBG Entitlement Grants Cluster					
2015 Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-37-0017	\$ 13,701	\$ -	\$ -
2016 Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-37-0017	76,263	-	-
2017 Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-37-0017	<u>154,678</u>	-	-
Total CDBG Entitlement Grants Cluster			244,642	-	-
Passed Through City of Concord					
2014 Home Investment Partnerships Program	14.239	M-14-DC-370209	1,627	-	-
2015 Home Investment Partnerships Program	14.239	M-15-DC-370209	46,918	-	-
2016 Home Investment Partnerships Program	14.239	M-16-DC-370209	5,848	-	-
2017 Home Investment Partnerships Program	14.239	M-17-DC-370209	5,603	-	-
2017 Home Investment Partnerships Program - Program Income	14.239	M-17-DC-370209	<u>12,041</u>	-	-
Total Home Investment Partnerships Program			72,037	-	-
Total U.S. Department of Housing and Urban Development			<u>316,679</u>	-	-
<b>U.S. Department of Transportation:</b>					
Federal Highway Administration:					
Passed Through NC Department of Transportation:					
Highway Planning and Construction Cluster					
Congestion Mitigation and Air Quality	20.205	41124.3.FD1	<u>103,782</u>	-	-
Total Highway Planning and Construction Cluster			103,782	-	-
Total Assistance - Federal Awards			<u>420,461</u>	-	-
<b>State Awards:</b>					
<b>N.C. Department of Transportation:</b>					
Powell Bill					
			-	<u>1,154,352</u>	-
<b>N.C. Housing Finance Agency</b>					
Urgent Repair Program Grant					
			-	<u>15,576</u>	-
Total Assistance - State Awards			-	<u>1,169,928</u>	-
Total Federal and State Awards			<u>\$ 420,461</u>	<u>\$ 1,169,928</u>	<u>\$ -</u>

Notes to the Schedule of Expenditures Federal and State Awards

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and State grant activity of the City of Kannapolis under the programs of the federal government and the State of North Carolina for the year ended June 30, 2018. The information in this SEFSA is presented in accordance with the requirements of Title 2 *US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the City of Kannapolis, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Kannapolis.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. City of Kannapolis has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.