

**CITY OF KANNAPOLIS  
NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2016**

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**CITY OF KANNAPOLIS  
NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2016**

Prepared by:  
Finance Department

Finance Director  
Eric Davis

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**CITY OF KANNAPOLIS, NORTH CAROLINA**  
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**FOR THE YEAR ENDED JUNE 30, 2016**

**TABLE OF CONTENTS**

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

**CITY OF KANNAPOLIS, NORTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**TABLE OF CONTENTS**

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

**CITY OF KANNAPOLIS, NORTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**TABLE OF CONTENTS**

<u>Schedule</u>		<u>Page</u>
	<b>Special Revenue Funds:</b>	
C-1	Combining Balance Sheet - Nonmajor Special Revenue Funds	98
C-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	99
C-3	Community Development Block Grant - Schedule of Revenues and Expenditures - Budget and Actual	100-102
C-4	Transit Tax Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	103
	<b>Capital Project Funds:</b>	
D-1	Combining Balance Sheet - Nonmajor Capital Project Funds	104
D-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Capital Project Funds	105
D-3	Irish Buffalo Creek Greenway Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	106
D-4	Pine Street Assisted Living Facility Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	107
D-5	Oak Avenue Sidewalk Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	108
D-6	Little Texas Road Sidewalk Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	
D-7	Glen Afton to Goodman Road Connection Capital Project Fund - Schedule of Revenues and Expenditures - Budget and Actual	110
D-8	Village Park Phase III Improvements - Schedule of Revenues and Expenditures - Budget and Actual	111

**CITY OF KANNAPOLIS, NORTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**TABLE OF CONTENTS**

<u>Schedule</u>		<u>Page</u>
	<b>Capital Project Funds: Continued</b>	
D-9	Fire Station Improvements - Schedule of Revenues and Expenditures - Budget and Actual	112
	<b>Enterprise Funds:</b>	
E-1	Water and Sewer Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	113-114
E-2	Shiloh Church Road Extension Water and Sewer Capital Project - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	115
E-3	Revenue Bonds 2014 Water and Sewer Capital Project - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	116
E-4	Mooresville Road Water Main Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	117
E-5	Davidson Road Water and Sudbury Road Sewer Main - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	118
E-6	Downtown Water and Sewer Infrastructure - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	119
E-7	Stormwater Fund - Schedule of Revenues Expenditures - Budget and Actual (Non-GAAP)	120
E-8	Environmental Services Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	121
E-9	Downtown Kannapolis Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	122
	<b>Additional Financial Data:</b>	
F-1	Schedule of Ad Valorem Taxes Receivable	123
F-2	Analysis of Current Tax Levy	124



**CITY OF KANNAPOLIS, NORTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**TABLE OF CONTENTS**

<b><u>Schedule</u></b>		<b><u>Page</u></b>
	<b>Additional Financial Data: Continued</b>	
F-3	Analysis of Current Tax Levy - Secondary Market Disclosures	125
F-4	Schedule of Principal Taxpayers	126
	<b><u>Table</u></b>	
	<b>Statistical Section:</b>	
1	Net Position by Component - Last Ten Fiscal Years	127
2	Changes in Net Position - Last Ten Fiscal Years	128-129
3	Fund Balances, Governmental Funds - Last Ten Fiscal Years	130
4	Changes in Fund Balances, Governmental Funds - Last Ten Fiscal Years	131
5	Assessed Value and Actual Value of Taxable Property - Last Ten Years	132
6	Direct and Overlapping Property Tax Rates - Last Ten Fiscal Years	133
7	Principal Property Taxpayers - Current Year and Ten Years Ago	134
8	Property Tax Levies and Collections - Last Ten Fiscal Years	135
9	Ratios of Net General Bonded Debt Outstanding - Last Ten Fiscal Years	136
10	Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	137
11	Direct and Overlapping Governmental Activities Debt as of June 30, 2016	138
12	Legal Debt Margin Information - Last Ten Fiscal Years	139
13	Pledged-Revenue Coverage - Last Ten Fiscal Years	140
14	Demographic and Economic Statistics - Last Ten Fiscal Years	141
15	Principal Employers - Current Year and Ten Years Ago	142

**CITY OF KANNAPOLIS, NORTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**TABLE OF CONTENTS**

<u>Table</u>		<u>Page</u>
16	Full-Time Equivalent City Government Employees by Function - Last Ten Fiscal Years	143
17	Operating Indicators by Functional Area - Last Ten Fiscal Years	144-145
18	Capital Asset Statistics by Function/Program - Last Ten Fiscal Years	146
19	Property Values and Construction - Last Ten Fiscal Years	147
 <b>Compliance Section:</b>		
	Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	148-149
	Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance; In Accordance With Uniform Guidance; And the State Single Audit Implementation Act	150-151
	Schedule of Findings, Responses and Questioned Costs	152-153
	Schedule of Prior Year Audit Findings	154
	Schedule of Expenditures of Federal and State Awards	155

## **Introductory Section**

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- Letter of Transmittal
  - GFOA Certificate of Achievement for Excellence in Financial Reporting
  - Organizational Chart
  - List of Principal Officials
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October 24, 2016

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, 2016, 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 2016.

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, 2016 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, 2016, 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 47,000 and the assessed valuation for property tax purposes of \$3,745,416,133. 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 47,000 makes it the 20<sup>th</sup> largest City in North Carolina. There are over 2,400 businesses that have a presence in Kannapolis.

Most notably, Kannapolis is home to the North Carolina Research Campus "*NCRC*"; a multi-purpose campus that houses state-of-the-art research equipment, research space and laboratory space that brings together researchers and scientists from the public and private sector to collaborate on advancements in biotechnology, nutrition and health. Three facilities are open and operating on the NCRC, including the D.H. Murdock Core Laboratory (the "*Core Lab*"), the Plants for Human Health Building and the Nutrition Research Building. The Core Lab is the centerpiece of the NCRC and houses the D.H. Murdock Research Institute as a provider of advanced research technologies to academic, government and industry scientists, including specialized high-tech equipment such as a 950-megahertz nuclear magnetic resonance spectrometer that has the highest commercially available magnetic field strength currently available in the world. Duke University oversees operations in the Core Lab and is expanding its presence on the campus by populating additional office space throughout the campus. The Plants for Human Health Building houses researchers and staff of Dole Foods, North Carolina

State University and Appalachian State University. The Nutrition Research Building houses researchers and staff of The University of North Carolina at Chapel Hill, The University of North Carolina at Greensboro, North Carolina A&T State University and North Carolina Central University. Private sector partners include Angiogen, Anatomics, Bio-Marker group, Dole Nutrition Institute, General Mills, Monsanto, RedHat, and Sensory Spectrum. In 2012, the US Food and Drug Administration began operations on the campus. The NCRC is considered an area of approximately 283 acres located in the downtown area of the City.

There are a number of additional public and private investments either completed, or planned on the NC Research Campus. First, the City of Kannapolis issued \$35 million in Limited Obligation Bonds in December of 2010. The proceeds of the 2010 Bonds have been used to finance numerous infrastructure projects such as water, sewer, and storm water lines, as well as various street improvements and the construction of a multi-tiered parking deck. Citizens can also see improvements such as a pedestrian tunnel that links the research campus to the City of Kannapolis' premier recreational space; Village Park, as well as the expansion of Veteran's Park; the preeminent place of remembrance for those local residents who gave their lives in the service of their Country. The funds were also used to construct and equip a new, state-of-the-art, 63,000 square foot public health facility located adjacent to the research campus on Dale Earnhardt Boulevard. This facility is operated by the Cabarrus Health Alliance, and serves as a model of service delivery for other health departments across the country. Also, a 60,000 square foot medical office building opened in the spring of 2013, offering medical services to patients of the Carolinas Medical Center (CMC) system. Additionally, in the summer of 2015, a 50,000 square foot state-of-the art data storage center was opened on the north end of the research campus providing much needed data storage services to companies on the campus and in the region.

In December of 2015, the City of Kannapolis 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 include 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.

Finally, in September of 2015, the City of Kannapolis completed a real estate transaction with Mr. D.H. Murdoch that saw the City acquire 46 acres of property in Downtown Kannapolis. The purchase includes eight blocks of buildings located on Oak Avenue, West Avenue, S. Main Street and West First Street, 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 along with a 116 key hotel on one block in between West Avenue and Main Street. The City is also currently evaluating Engineering & Architectural proposals to begin design of a new 4,500 seat Minor League Baseball Stadium. This facility will also host other types of civic events, as it is planned to be open 365 days a year. To support this new development, the City is currently working to upgrade all of its below ground infrastructure. This should be completed in approximately 24 months. 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.

## **LONG TERM FINANCIAL PLANNING**

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

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

## AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kannapolis, North Carolina for its comprehensive annual financial report for the fiscal year ended June 30, 2015. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

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

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

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

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Eric Davis", with a stylized flourish at the end.

Eric Davis  
Finance Director



Government Finance Officers Association

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

Presented to

**City of Kannapolis  
North Carolina**

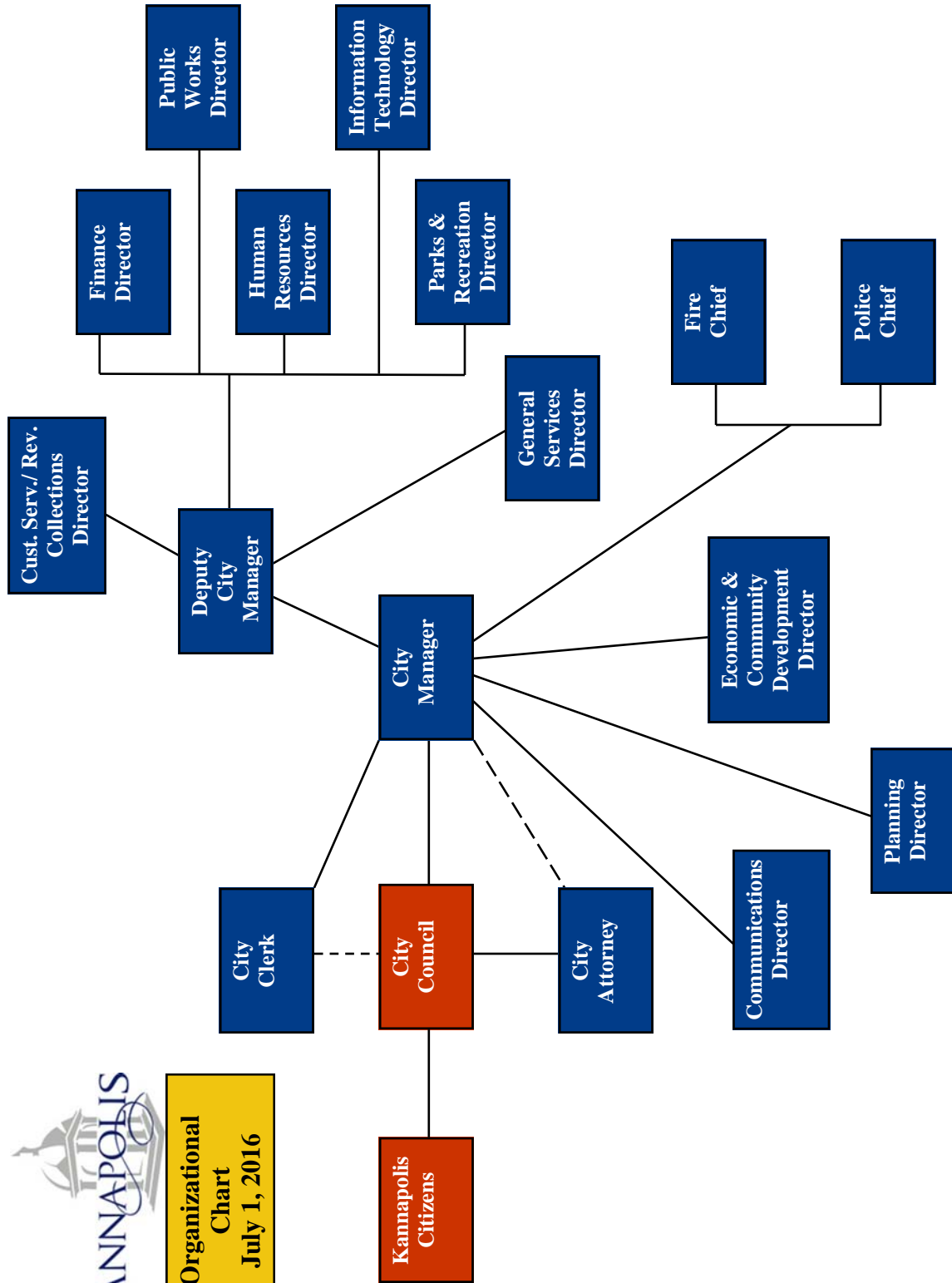
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO



**Organizational Chart  
July 1, 2016**



**CITY OF KANNAPOLIS  
NORTH CAROLINA**

**MAYOR AND CITY OFFICIALS**

**MAYOR AND CITY COUNCIL**

M. Darrell Hinnant – Mayor

Tom Kincaid – Mayor Pro-tem

Roger D. Haas – Council Member

Ryan G. Dayvault – Council Member

Dianne Berry – Council Member

Darrell Jackson – Council Member

Doug Wilson – Council Member

**OFFICIALS**

Michael B. Legg  
City Manager

Bridgette L. Bell  
City Clerk

Eric Davis  
Finance Director

R. Edward Smith  
Deputy City Manager

Tina H. Cline  
Human Resources Director

Walter M. Safrit, II  
City Attorney

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### ***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, 2016, and the respective changes in financial position, and where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress, the Other Post-Employment Benefits' Schedules of Funding Progress and Employer Contributions, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension 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 24, 2016 on our consideration of the City of Kannapolis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Kannapolis' internal control over financial reporting and compliance.

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 24, 2016

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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, 2016. 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 \$187,935,737 (*net position*).
- The government's total net position increased by \$5,723,068, due to increases in both the governmental activities and business-type activities net position.
- As of the close of the current fiscal year, the City of Kannapolis' governmental funds reported combined ending fund balances of \$21,650,577, which is a decrease of \$8,619,116 in fund balance. Approximately 45% of this total amount, or \$9,656,947, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$12,015,496.
- The City of Kannapolis' total debt increased \$4,061,514, or 4%, during the current fiscal year. The key factor in this increase was the issuance of special obligation bonds in the current year for the new Downtown operations.
- The City holds the following underlying bond ratings:

#### **Water and Sewer Revenue Bonds**

Moody's	A1
Standard & Poor's	A+

#### **Limited Obligation Bonds**

Moody's	Aa3
Standard & Poor's	A+

#### **Issuer Credit Rating**

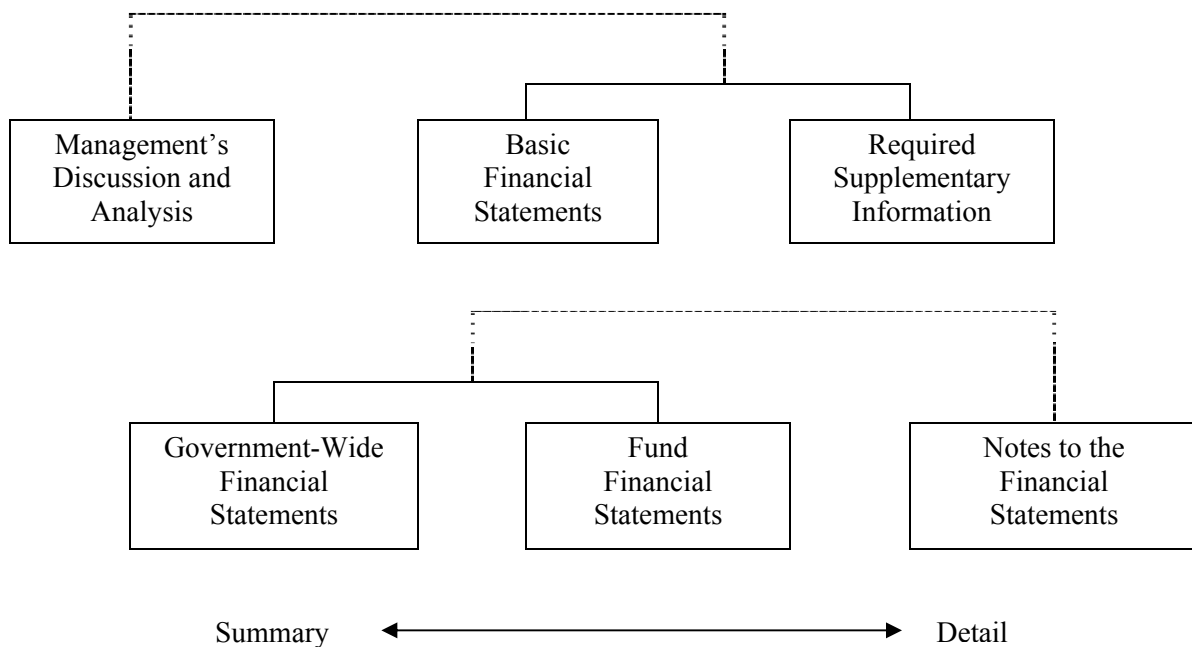
Standard & Poor's	AA-
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## Overview of Financial Statements

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 and stormwater operations.

The government-wide financial statements are on Exhibits A and B of this report, pages 26 through 29.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in the governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and the balances left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a focus on current financial resources. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine whether there are more or fewer financial resources available to finance the City's programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City maintains ten individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund and the City Office/Public Safety Building Capital Project Fund, which are considered to be major funds. Data from the other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. The budget also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures, and Changes in Fund Balance. The statement shows four columns: 1) the original budget as adopted by the Council; 2) the final budget as amended by the Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the variance between the final budget and the actual resources and charges.

The basic governmental fund financial statements can be found on pages 30 through 34 of this report.

**Proprietary Funds.** The City maintains only one type of proprietary fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations, stormwater operations, 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 35 through 37 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 38 through 85 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. This required supplementary information can be found on pages 86 through 89 of this report.



The combining statements, referred to earlier in connection with nonmajor governmental funds, are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 90 through 112 of this report for the City's governmental funds and on pages 113 through 122 for the City's enterprise funds.

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

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

By far, the largest portion of the City's net position (92%) reflects its net investment in capital assets (e.g., land, buildings, streets, sidewalks, bridges, automotive equipment, office and other equipment, water treatment and storage facilities, water distribution lines, and sewage collection lines, less any related debt still outstanding that was issued to acquire those assets). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of net position is made up of restricted and unrestricted net position, totaling \$3,625,785 and \$11,081,351, 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**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Assets:</b>						
Current assets	\$ 26,173,708	\$ 36,266,890	\$ 15,993,246	\$ 14,433,345	\$ 42,166,954	\$ 50,700,235
Capital assets	174,434,638	165,265,364	108,277,346	98,579,952	282,711,984	263,845,316
Total assets	<u>200,608,346</u>	<u>201,532,254</u>	<u>124,270,592</u>	<u>113,013,297</u>	<u>324,878,938</u>	<u>314,545,551</u>
<b>Deferred Outflows of Resources</b>						
	<u>865,894</u>	<u>897,078</u>	<u>190,075</u>	<u>224,270</u>	<u>1,055,969</u>	<u>1,121,348</u>
<b>Liabilities:</b>						
Long-term liabilities outstanding	74,883,621	75,828,975	45,937,742	37,856,629	120,821,363	113,685,604
Other liabilities	9,920,184	8,995,812	6,111,179	6,207,663	16,031,363	15,203,475
Total liabilities	<u>84,803,805</u>	<u>84,824,787</u>	<u>52,048,921</u>	<u>44,064,292</u>	<u>136,852,726</u>	<u>128,889,079</u>
<b>Deferred Inflows of Resources</b>						
	<u>952,788</u>	<u>3,672,928</u>	<u>193,656</u>	<u>917,110</u>	<u>1,146,444</u>	<u>4,590,038</u>
<b>Net Position:</b>						
Net investment in capital assets	110,342,120	109,954,984	62,886,481	61,843,243	173,228,601	171,798,227
Restricted	3,625,785	3,909,389	-	-	3,625,785	3,909,389
Unrestricted	1,749,742	67,244	9,331,609	6,412,922	11,081,351	6,480,166
Total net position	<u>\$115,717,647</u>	<u>\$ 113,931,617</u>	<u>\$ 72,218,090</u>	<u>\$ 68,256,165</u>	<u>\$ 187,935,737</u>	<u>\$ 182,187,782</u>

The City's total net position increased by \$5,723,068, while unrestricted net position increased this fiscal year by \$4,601,185. Several particular aspects of the City's financial operations positively influenced the total net position:

- Capital assets increased by \$17,101,852 from fiscal year 2015 to 2016 in the governmental activities. The City is in the process of building a new City Hall and Public Safety Headquarters which accounted for the majority of the increase. The City also purchased its Downtown from Atlantic American Properties and Castle Cook North Carolina for \$9,702,285.
- The City financed the Downtown purchase with special obligation bonds which accounted for total long-term liabilities increasing by \$11,000,000.

## City of Kannapolis' Changes in Net Position

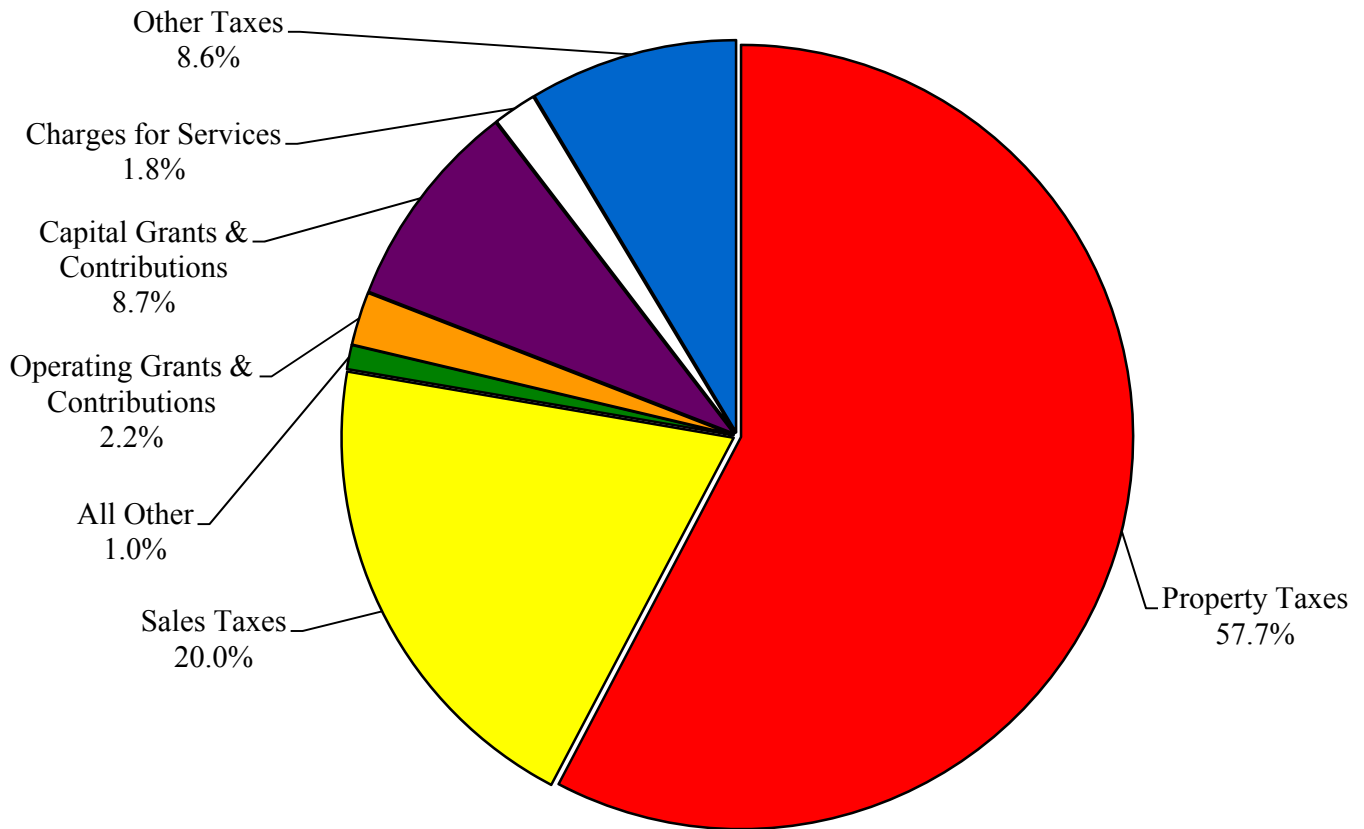
**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 734,874	\$ 583,867	\$ 21,460,405	\$ 17,092,294	\$ 22,195,279	\$ 17,676,161
Operating grants and contributions	908,348	1,084,937	-	-	908,348	1,084,937
Capital grants and contributions	3,570,091	3,778,242	1,204,690	1,330,735	4,774,781	5,108,977
General revenues:						
Property taxes	23,620,440	21,585,893	-	-	23,620,440	21,585,893
Other taxes	11,674,720	10,763,821	-	-	11,674,720	10,763,821
Other revenues	399,642	401,277	12,585	19,507	412,227	420,784
Total revenues	40,908,115	38,198,037	22,677,680	18,442,536	63,585,795	56,640,573
<b>Expenses:</b>						
General government	6,674,373	5,439,679	-	-	6,674,373	5,439,679
Public safety	17,345,226	16,074,597	-	-	17,345,226	16,074,597
Public works	6,017,248	5,179,692	-	-	6,017,248	5,179,692
Community development	1,331,648	1,829,369	-	-	1,331,648	1,829,369
Parks and recreation	2,307,844	2,454,355	-	-	2,307,844	2,454,355
Water and sewer	-	-	14,130,523	12,481,710	14,130,523	12,481,710
Stormwater	-	-	1,683,401	1,586,097	1,683,401	1,586,097
Environmental services	-	-	3,631,831	3,523,274	3,631,831	3,523,274
Downtown	-	-	1,630,245	-	1,630,245	-
Other	3,110,388	3,056,485	-	-	3,110,388	3,056,485
Total expenses	36,786,727	34,034,177	21,076,000	17,591,081	57,862,727	51,625,258
Increase (decrease) in net position before transfers						
	4,121,388	4,163,860	1,601,680	851,455	5,723,068	5,015,315
Transfers	(2,360,245)	(1,100,000)	2,360,245	1,100,000	-	-
Increase (decrease) in net position	1,761,143	3,063,860	3,961,925	1,951,455	5,723,068	5,015,315
<b>Net Position:</b>						
Beginning of year - July 1	113,931,617	113,092,820	68,256,165	66,860,976	182,187,782	179,953,796
Restatement	24,887	(2,225,063)	-	(556,266)	24,887	(2,781,329)
Beginning of year - July 1, as restated	113,956,504	110,867,757	68,256,165	66,304,710	182,212,669	177,172,467
End of year - June 30	\$115,717,647	\$ 113,931,617	\$ 72,218,090	\$ 68,256,165	\$187,935,737	\$ 182,187,782

**Governmental Activities.** Net position increased in the City’s governmental activities this fiscal year by \$1,761,143. Key elements of this increase are as follows:

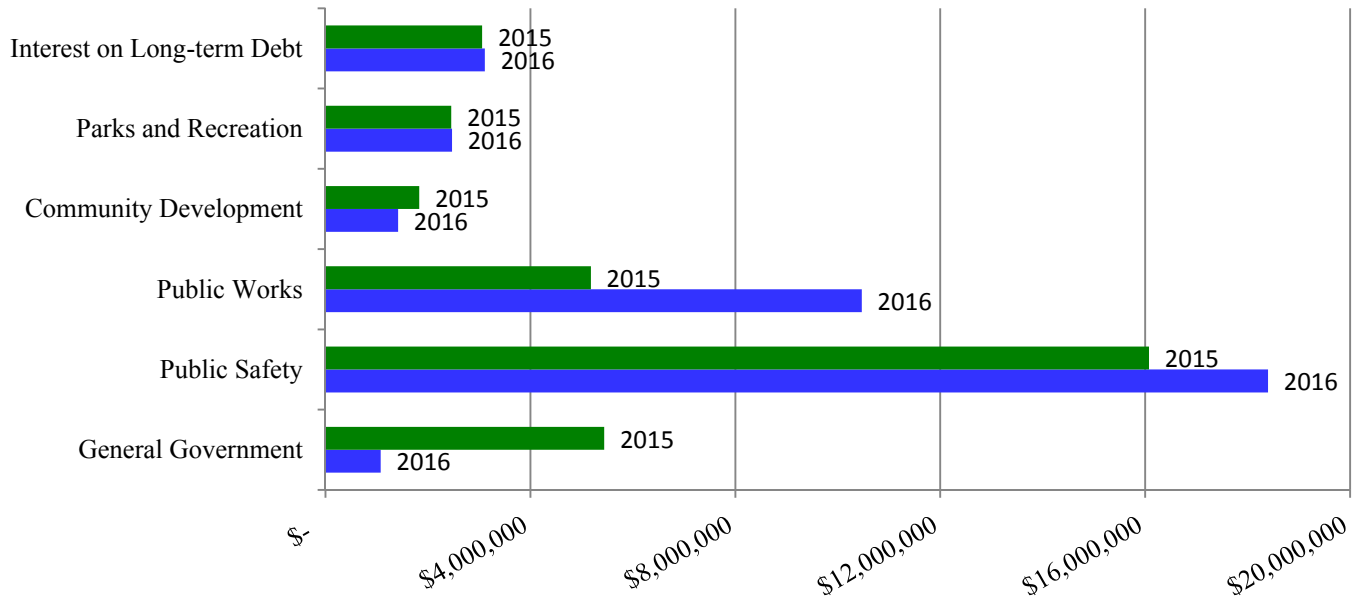
- Property tax revenues increased \$2,034,547 from fiscal year 2015. The property tax rate increased by 3 cents from fiscal year 2015 to fiscal year 2016.
- Sales tax collected increased \$826,410. This is an 11.3% increase from fiscal year 2015.
- The City continues to hold down expenses for the General Fund. Overall revenues exceed the General Fund budget by \$2,489,093, while expenditures were under budget by \$549,772.

### 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 \$23,620,440, while sales taxes total \$8,167,848. The third largest source of revenue is through capital grants and contributions. The City received grants from the Golden Leaf Foundation, the United States Department of Housing and Urban Development, the United States Department of Transportation, the United States Department of Homeland Security, and the Federal Emergency Management Agency. The City also received property donations totaling \$1,834,522. This donated property came from developers donating \$557,312 in sidewalks and \$1,277,210 in streets.

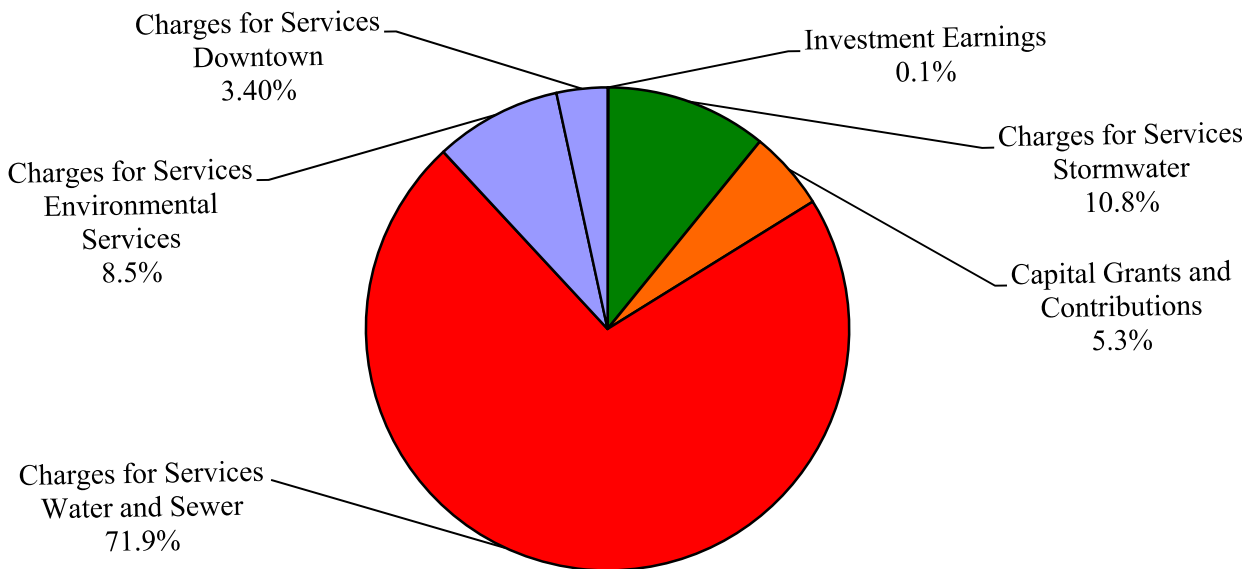
## Government Activities Expenses



**Business-Type Activities.** Business-type activities increased the City of Kannapolis' net position by \$3,961,925. Key elements of this increase are as follows:

- Revenue in the business-type activities continue to cover expenditures. The City has worked to match revenue with expenditures and decrease dependence on transfers from other funds.
- Capital contributions were \$1,204,690 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 \$12,015,496, while total fund balance reached \$19,753,212. The City currently has an available fund balance of 46% of General Fund expenditures and transfers out, while total fund balance represents 52% of the same amount. The City Council adopted a fund balance policy stipulating an acceptable range between 25% and 33% of General Fund expenditures to available fund balance in case of unforeseen needs or opportunities, as well as meeting the cash flow needs of the City. Since fund balance is over 33%, the City will develop a spending plan utilizing more cash payments for capital projects or other capital assets.

At June 30, 2016, the governmental funds of the City of Kannapolis reported a combined fund balance of \$21,650,577 with a net decrease in fund balance of \$8,619,116.

### **General Fund Budgetary Highlights**

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

Total amendments to the General Fund increased revenues and expenditures by \$1,879,054, or 5.5%. The largest amendment to the General Fund was to budget \$525,000 to transfers to the Village Park Phase III Improvement and Fire Station Improvement Capital Project Funds. All other budget amendments were minor.

The total variance from the final budget numbers to the actual results for revenues that the City received was \$2,489,093, or 6.6%, more than the budgeted amount. Property tax revenue and sales tax revenue were over budget by \$1,105,975 and \$670,348, respectively. Total revenue increased by 8.1% from fiscal year 2015.

The total variance from the final budget numbers to the actual results for expenditures totaled \$549,772, or 1.6%, 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, 2016 was \$9,331,481, compared to \$6,551,022 at June 30, 2015. See the detailed explanation of this increase under key elements of the change in the net position discussed earlier under "Business-Type Activities."

## Capital Asset and Debt Administration

### Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016 totaled \$282,711,984 (net of accumulated depreciation). This is an increase from June 30, 2015 of \$18,866,670. These assets include land, buildings, improvements, machinery and equipment, and infrastructure.

Major capital asset transactions during the year included the following:

- \$10,324,026 in construction in progress for the new City Hall and Public Safety Headquarters
- \$9,702,285 for purchase of the City's Downtown.

### City of Kannapolis' Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 13,943,757	\$ 13,875,862	\$ 6,387,412	\$ 730,342	\$ 20,331,169	\$ 14,606,204
Construction in progress	32,729,489	22,405,463	17,557,547	16,742,408	50,287,036	39,147,871
Rowan County water rights	-	-	2,411,100	2,411,100	2,411,100	2,411,100
Buildings and systems	33,961,111	33,934,516	26,943,128	22,946,239	60,904,239	56,880,755
Improvements other than buildings	7,056,714	7,133,214	-	-	7,056,714	7,133,214
Machinery and equipment	17,019,659	16,933,411	3,992,975	3,469,937	21,012,634	20,403,348
Infrastructure	154,323,239	152,488,717	97,126,022	95,857,475	251,449,261	248,346,192
Total	259,033,969	246,771,183	154,418,184	142,157,501	413,452,153	388,928,684
Less accumulated depreciation and amortization	84,599,331	81,505,819	46,140,838	43,577,549	130,740,169	125,083,368
Capital assets, net	<u>\$ 174,434,638</u>	<u>\$ 165,265,364</u>	<u>\$ 108,277,346</u>	<u>\$ 98,579,952</u>	<u>\$ 282,711,984</u>	<u>\$ 263,845,316</u>

For additional information on the City's capital assets, see pages 53 through 56 of this report.

## Long-Term Debt

At the end of the current fiscal year, the City of Kannapolis had total debt outstanding of \$110,495,543. Of this amount, \$29,365,629 represents bonds secured solely by water and sewer revenues. (i.e. revenue bonds). The City also had \$25,933,214 in outstanding installment obligations and \$55,196,700 in outstanding limited obligation bonds. Through an intergovernmental agreement, Cabarrus County makes contributions for approximately 35% for the limited obligation bonds annually.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Installment obligations	\$ 9,075,689	\$ 10,493,170	\$ 16,857,525	\$ 7,022,767	\$ 25,933,214	\$ 17,515,937
Revenue bonds	-	-	29,365,629	31,325,159	29,365,629	31,325,159
Limited obligation bonds	55,196,700	57,592,933	-	-	55,196,700	57,592,933
Total	<u>\$ 64,272,389</u>	<u>\$ 68,086,103</u>	<u>\$ 46,223,154</u>	<u>\$ 38,347,926</u>	<u>\$ 110,495,543</u>	<u>\$ 106,434,029</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, 2016, the legal debt limit for the City totaled \$218,503,377. The City Council adopted a debt management policy in May of 2012. According to this policy, the net debt (tax supported) should not exceed 2% of the total assessed value of taxable property.

Additional information on the City of Kannapolis' long-term debt can be found in Note 2(B) on pages 70 through 81 of this report.

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

- The unemployment rate for Cabarrus County in June 2016 was 5.4%, which is an increase from a rate of 5.3% in June 2015. A portion of the City (18%) is located in Rowan County. The unemployment rate in Rowan County decreased to 5.8% in June 2016, compared to 6.0% in June 2015.
- Population in the City has increased from 41,273 in 2007 to 46,144 in 2016.

All of these factors were considered in preparing the City of Kannapolis' budget for fiscal year 2017. The City council did not increase the tax rate as it remains at \$.63/\$100 of valuation for Fiscal Year 2017. Nine Capital Projects were approved in the General Fund with a total cost of \$10,615,000 and a budget impact of \$1,381,240 for the 2017 Fiscal Budget. Ten new positions were included in the Fiscal Year budget increasing the citywide employment figure to 336 Full-Time Employees. The General Fund budget increased \$3,205,787, or 8.35% from Fiscal year 2016 budget. The increased revenue is largely from two sources, Sales tax and Utility Franchise tax.

The Fiscal Year 2017 Water and Sewer Budget Increased \$562,500, or 3.59% from Fiscal Year 2016 budget. No rate increases or new fees are found in Fiscal Year 2017 budget. However, additional revenue is expected due to organic growth in the system and increased efficiency as a result of digital water meter installations over the past three years. In Fiscal Year 2016, the Water & Sewer Budget increased 5.14%, or \$765,709 from the previous year's budget.



The Stormwater Fund budget for fiscal year 2017 totaled \$2,340,000 which represents a 15.56% increase, or \$315,000, increase from the 2016 budget. This is the second year the Stormwater Fund has been self-sufficient and the last year for debt service on past capital projects. The 2017 Fiscal Year budget include \$111,000 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 2017 budget for the Environmental Fund increased 1.23%, or \$46,005 over previous year's budget. While the fund's budget did not increase significantly, a rate increase of \$2.50 per customer per month is found in this year's budget. This increased revenue decrease the transfer to the Environmental Fund by \$570,125. The rate increase is part of the 10 year financial plan to make the Environmental Fund self-sufficient.

Fiscal Year 2017 is the second year for the Downtown Fund. The fund increase 17.31%, or \$324,175 over previous year's budget. Increases in building rental fees and special event fees revenues are projected for Fiscal Year 2017 and this year will be the first full year of debt service payment on the city's 49 acre historic downtown purchase.

### **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, 2016

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 16,513,455	\$ 8,519,435	\$ 25,032,890
Taxes receivable	535,744	-	535,744
Accounts receivable, net	208,509	4,437,348	4,645,857
Due from other governments	2,646,410	117,098	2,763,508
Cash and cash equivalents, restricted	6,049,084	2,917,387	8,966,471
Prepaid items	220,506	1,978	222,484
Total current assets	<u>26,173,708</u>	<u>15,993,246</u>	<u>42,166,954</u>
Non-current assets:			
Intangible asset, net of amortization	-	1,735,992	1,735,992
Non-depreciable assets	46,673,246	23,944,959	70,618,205
Other capital assets, net of depreciation	127,761,392	82,596,395	210,357,787
Total non-current assets	<u>174,434,638</u>	<u>108,277,346</u>	<u>282,711,984</u>
Total assets	<u>200,608,346</u>	<u>124,270,592</u>	<u>324,878,938</u>
<b>Deferred Outflows of Resources:</b>			
Contributions to pension plan in current year	<u>865,894</u>	<u>190,075</u>	<u>1,055,969</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	1,657,568	984,225	2,641,793
Accrued expenses	1,788,006	331,020	2,119,026
Accrued interest	905,436	357,374	1,262,810
Current compensated absences	786,695	114,188	900,883
Current maturities of long-term debt	4,602,608	3,687,315	8,289,923
Liabilities to be paid from restricted assets	179,871	637,057	816,928
Total current liabilities	<u>9,920,184</u>	<u>6,111,179</u>	<u>16,031,363</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION  
JUNE 30, 2016

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Non-current liabilities:			
Net pension liability	1,115,699	244,909	1,360,608
Non-current compensated absences	262,232	38,062	300,294
Other post-employment benefits obligation	12,194,145	3,118,932	15,313,077
Unfunded pension obligation	1,641,764	-	1,641,764
Long-term debt	59,669,781	42,535,839	102,205,620
Total non-current liabilities	<u>74,883,621</u>	<u>45,937,742</u>	<u>120,821,363</u>
Total liabilities	<u>84,803,805</u>	<u>52,048,921</u>	<u>136,852,726</u>
<b>Deferred Inflows of Resources:</b>			
Prepaid taxes	70,580	-	70,580
Pension deferrals	882,208	193,656	1,075,864
Total deferred inflows of resources	<u>952,788</u>	<u>193,656</u>	<u>1,146,444</u>
<b>Net Position:</b>			
Net investment in capital assets	110,342,120	62,886,481	173,228,601
Restricted - stabilization for State statute	2,656,637	-	2,656,637
Restricted - streets	57,682	-	57,682
Restricted - community development	867,851	-	867,851
Restricted - public works	43,615	-	43,615
Unrestricted	<u>1,749,742</u>	<u>9,331,609</u>	<u>11,081,351</u>
Total net position	<u>\$ 115,717,647</u>	<u>\$ 72,218,090</u>	<u>\$ 187,935,737</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, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Functions/Programs</b>				
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 6,674,373	\$ 94,432	\$ 828,549	\$ 1,523,336
Public safety	17,345,226	246,213	-	-
Public works	6,017,248	144,031	-	1,589,792
Community development	1,331,648	118,001	13,131	-
Parks and recreation	2,307,844	132,197	66,668	456,963
Interest on long-term debt	3,110,388	-	-	-
Total governmental activities	<u>36,786,727</u>	<u>734,874</u>	<u>908,348</u>	<u>3,570,091</u>
<b>Business-Type Activities:</b>				
Water and sewer	14,130,523	16,314,943	-	1,204,690
Stormwater	1,683,401	2,449,156	-	-
Environmental services	3,631,831	1,932,259	-	-
Downtown	1,630,245	764,047	-	-
Total business-type activities	<u>21,076,000</u>	<u>21,460,405</u>	<u>-</u>	<u>1,204,690</u>
Total primary government	<u>\$ 57,862,727</u>	<u>\$ 22,195,279</u>	<u>\$ 908,348</u>	<u>\$ 4,774,781</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, 2016

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>			
<b>Primary Government:</b>			
<b>Governmental Activities:</b>			
General government	\$ (4,228,056)	\$ -	\$ (4,228,056)
Public safety	(17,099,013)	-	(17,099,013)
Public works	(4,283,425)	-	(4,283,425)
Community development	(1,200,516)	-	(1,200,516)
Parks and recreation	(1,652,016)	-	(1,652,016)
Interest on long-term debt	(3,110,388)	-	(3,110,388)
Total governmental activities	<u>(31,573,414)</u>	<u>-</u>	<u>(31,573,414)</u>
<b>Business-Type Activities:</b>			
Water and sewer	-	3,389,110	3,389,110
Stormwater	-	765,755	765,755
Environmental services	-	(1,699,572)	(1,699,572)
Downtown	-	(866,198)	(866,198)
Total business-type activities	<u>-</u>	<u>1,589,095</u>	<u>1,589,095</u>
Total primary government	<u>(31,573,414)</u>	<u>1,589,095</u>	<u>(29,984,319)</u>
<b>General Revenues:</b>			
Taxes:			
Ad valorem taxes	23,620,440	-	23,620,440
Sales tax	8,167,848	-	8,167,848
Other taxes and licenses	757,729	-	757,729
Franchise tax	2,749,143	-	2,749,143
Unrestricted intergovernmental revenues	195,433	-	195,433
Investment earnings	204,209	12,585	216,794
Total general revenues not including transfers	<u>35,694,802</u>	<u>12,585</u>	<u>35,707,387</u>
Transfers	<u>(2,360,245)</u>	<u>2,360,245</u>	<u>-</u>
Total general revenues and transfers	<u>33,334,557</u>	<u>2,372,830</u>	<u>35,707,387</u>
Change in net position	<u>1,761,143</u>	<u>3,961,925</u>	<u>5,723,068</u>
<b>Net Position:</b>			
Beginning of year - July 1	113,931,617	68,256,165	182,187,782
Restatement	24,887	-	24,887
Beginning of year - July 1, as restated	<u>113,956,504</u>	<u>68,256,165</u>	<u>182,212,669</u>
End of year - June 30	<u>\$ 115,717,647</u>	<u>\$ 72,218,090</u>	<u>\$ 187,935,737</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2016

	Major Funds		Nonmajor	Total
	General Fund	City Office/ Public Safety Building	Other Governmental Funds	
<b>Assets:</b>				
Cash and cash equivalents	\$ 14,647,404	\$ 1,003,975	\$ 862,076	\$ 16,513,455
Taxes receivable	535,744	-	-	535,744
Accounts receivable	7,724	-	200,785	208,509
Due from other governments	1,973,671	335,054	337,685	2,646,410
Due from other funds	280,480	-	-	280,480
Cash and cash equivalents - restricted	5,501,067	179,871	368,146	6,049,084
Prepaid items	220,506	-	-	220,506
Total assets	<u>\$ 23,166,596</u>	<u>\$ 1,518,900</u>	<u>\$ 1,768,692</u>	<u>\$ 26,454,188</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 727,692	\$ 824,104	\$ 105,772	\$ 1,657,568
Accrued liabilities	1,788,006	-	-	1,788,006
Due to other funds	-	-	280,480	280,480
Liabilities to be paid from restricted assets	-	179,871	-	179,871
Total liabilities	<u>2,515,698</u>	<u>1,003,975</u>	<u>386,252</u>	<u>3,905,925</u>
<b>Deferred Inflows of Resources:</b>				
Prepaid taxes	70,580	-	-	70,580
Property taxes receivable	535,744	-	-	535,744
Other unavailable revenue	291,362	-	-	291,362
Total deferred inflows of resources	<u>897,686</u>	<u>-</u>	<u>-</u>	<u>897,686</u>
<b>Fund Balances:</b>				
Non-spendable:				
Prepaid items	220,506	-	-	220,506
Long-term receivable	-	-	187,400	187,400
Restricted:				
Stabilization for State statute	1,970,513	335,054	351,070	2,656,637
Restricted for community development	5,443,385	-	867,851	6,311,236
Restricted for public works	-	-	43,615	43,615
Restricted for streets	57,682	-	-	57,682
Restricted for public safety	-	179,871	-	179,871
Committed	45,630	-	219,535	265,165
Unassigned	12,015,496	-	(287,031)	11,728,465
Total fund balances	<u>19,753,212</u>	<u>514,925</u>	<u>1,382,440</u>	<u>21,650,577</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 23,166,596</u>	<u>\$ 1,518,900</u>	<u>\$ 1,768,692</u>	<u>\$ 26,454,188</u>

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



**CITY OF KANNAPOLIS, NORTH CAROLINA**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total fund balance - governmental funds	\$ 21,650,577
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	174,434,638
Net pension liability	(1,115,699)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	865,894
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.	827,106
Pension related deferrals	(882,208)
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	(64,272,389)
Unfunded LEO	(1,641,764)
Other post-employment benefits	(12,194,145)
Accrued interest	(905,436)
Compensated absences	<u>(1,048,927)</u>
Net position of governmental activities	<u>\$ 115,717,647</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, 2016

	Major Funds		Nonmajor	Total
	General Fund	City Office/ Public Safety Building	Other Governmental Funds	
<b>Revenues:</b>				
Ad valorem taxes	\$ 23,808,805	\$ -	\$ -	\$ 23,808,805
Other taxes and licenses	8,735,262	-	190,315	8,925,577
Unrestricted intergovernmental	2,944,576	-	-	2,944,576
Restricted intergovernmental	2,803,468	-	766,622	3,570,090
Sales and services	745,405	-	-	745,405
Contributions	-	1	-	1
Investment earnings	193,992	10,217	-	204,209
Miscellaneous	908,348	-	-	908,348
Total revenues	<u>40,139,856</u>	<u>10,218</u>	<u>956,937</u>	<u>41,107,011</u>
<b>Expenditures:</b>				
Current:				
General government	6,121,872	-	-	6,121,872
Public safety	15,440,434	-	-	15,440,434
Public works	4,342,983	-	-	4,342,983
Community development	666,227	-	709,457	1,375,684
Capital outlay	-	10,899,329	719,096	11,618,425
Parks and recreation	1,654,948	-	-	1,654,948
Debt service:				
Principal retirement	3,502,481	-	190,000	3,692,481
Interest and fees	3,145,650	-	-	3,145,650
Total expenditures	<u>34,874,595</u>	<u>10,899,329</u>	<u>1,618,553</u>	<u>47,392,477</u>
Revenues over (under) expenditures	<u>5,265,261</u>	<u>(10,889,111)</u>	<u>(661,616)</u>	<u>(6,285,466)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers (out)	(3,173,850)	-	-	(3,173,850)
Transfers in	-	-	840,200	840,200
Total other financing sources (uses)	<u>(3,173,850)</u>	<u>-</u>	<u>840,200</u>	<u>(2,333,650)</u>
Net change in fund balances	<u>2,091,411</u>	<u>(10,889,111)</u>	<u>178,584</u>	<u>(8,619,116)</u>
<b>Fund Balances:</b>				
Beginning of year - July 1	17,636,914	11,404,036	1,203,856	30,244,806
Restatement	24,887	-	-	24,887
Beginning of year - as restated	<u>17,661,801</u>	<u>11,404,036</u>	<u>1,203,856</u>	<u>30,269,693</u>
End of year - June 30	<u>\$ 19,753,212</u>	<u>\$ 514,925</u>	<u>\$ 1,382,440</u>	<u>\$ 21,650,577</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, 2016

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)	\$ (8,619,116)
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.	13,518,061
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(4,354,290)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	865,894
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.	11,474
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(187,890)
Expenses related to accrued interest, compensated absences, Law Enforcement Officers' Separation Allowance and other post-employment benefits that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(2,631,326)
Pension expenses reported in the Statement of Activities does not require the use of current financial resources, and, therefore is not reported as an expenditure in the governmental funds.	(638,401)
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.	121,233
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.	3,692,481
Transfer of capital assets from business-type activities to the governmental activities	<u>(16,977)</u>
Total change in net position of governmental activities (Exhibit B)	<u>\$ 1,761,143</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, 2016**

	<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	\$ 22,702,830	\$ 22,702,830	\$ 23,808,805	\$ 1,105,975
Other taxes and licenses	7,382,250	7,907,250	8,735,262	828,012
Unrestricted intergovernmental	2,150,000	2,535,000	2,944,576	409,576
Restricted intergovernmental	2,764,303	2,764,303	2,803,468	39,165
Sales and services	599,500	599,500	745,405	145,905
Investment earnings	120,000	120,000	193,992	73,992
Miscellaneous	747,020	1,018,620	908,348	(110,272)
Total revenues	<u>36,465,903</u>	<u>37,647,503</u>	<u>40,139,856</u>	<u>2,492,353</u>
<b>Expenditures:</b>				
Current:				
General government	5,614,948	6,158,004	6,121,872	36,132
Public safety	14,936,785	15,622,238	15,440,434	181,804
Public works	4,059,393	4,456,426	4,342,983	113,443
Community development	749,487	687,687	666,227	21,460
Parks and recreation	1,550,340	1,841,534	1,654,948	186,586
Debt service:				
Principal retirement	3,843,100	3,507,077	3,502,481	4,596
Interest and fees	3,313,000	3,148,141	3,145,650	2,491
Total expenditures	<u>34,067,053</u>	<u>35,421,107</u>	<u>34,874,595</u>	<u>546,512</u>
Revenues over (under) expenditures	<u>2,398,850</u>	<u>2,226,396</u>	<u>5,265,261</u>	<u>3,038,865</u>
<b>Other Financing Sources (Uses):</b>				
Transfers (out)	(2,648,850)	(3,173,850)	(3,173,850)	-
Appropriated fund balance	<u>250,000</u>	<u>947,454</u>	<u>-</u>	<u>(947,454)</u>
Total other financing sources (uses)	<u>(2,398,850)</u>	<u>(2,226,396)</u>	<u>(3,173,850)</u>	<u>(947,454)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>2,091,411</u>	<u>\$ 2,091,411</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			17,636,914	
Restatement			<u>24,887</u>	
Beginning of year - July 1 as restated			<u>17,661,801</u>	
End of year - June 30			<u>\$ 19,753,212</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, 2016

	Business-Type Activities				
	Major Enterprise Funds				Total Business-Type Activities
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	Downtown Kannapolis Fund	
<b>Assets:</b>					
Current assets:					
Cash and investments	\$ 6,432,946	\$ 960,449	\$ 508,832	\$ 617,208	\$ 8,519,435
Accounts receivable, net	3,814,052	327,979	295,317	-	4,437,348
Due from other governments	82,819	13,171	14,399	6,709	117,098
Cash and investments, restricted	1,755,974	-	-	1,161,413	2,917,387
Prepaid assets	1,978	-	-	-	1,978
Total current assets	12,087,769	1,301,599	818,548	1,785,330	15,993,246
Non-current assets:					
Intangible asset, net of amortization	1,735,992	-	-	-	1,735,992
Capital assets:					
Non-depreciable assets	18,287,889	-	-	5,657,070	23,944,959
Other capital assets net of depreciation	73,446,977	5,152,179	-	3,997,239	82,596,395
Total capital assets	91,734,866	5,152,179	-	9,654,309	106,541,354
Total non-current assets	93,470,858	5,152,179	-	9,654,309	108,277,346
Total assets	105,558,627	6,453,778	818,548	11,439,639	124,270,592
<b>Deferred Outflows of Resources:</b>					
Contributions to pension plan	147,836	42,239	-	-	190,075
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	618,049	10,587	292,811	62,778	984,225
Accrued expenses	91,581	20,695	-	218,744	331,020
Accrued interest	346,603	10,771	-	-	357,374
Current portion of compensated absences	93,080	21,108	-	-	114,188
Current maturities of long-term debt	2,349,110	604,205	-	734,000	3,687,315
Liabilities to be paid from restricted assets	637,057	-	-	-	637,057
Total current liabilities	4,135,480	667,366	292,811	1,015,522	6,111,179
Non-current liabilities:					
Net pension liability	190,485	54,424	-	-	244,909
Compensated absences	31,026	7,036	-	-	38,062
Other post-employment benefits obligation	2,434,826	684,106	-	-	3,118,932
Long-term debt	29,319,725	2,950,114	-	10,266,000	42,535,839
Total non-current liabilities	31,976,062	3,695,680	-	10,266,000	45,937,742
Total liabilities	36,111,542	4,363,046	292,811	11,281,522	52,048,921
<b>Deferred Inflows of Resources:</b>					
Pension deferrals	150,621	43,035	-	-	193,656
<b>Net Position:</b>					
Net investment in capital assets	61,472,899	1,597,860	-	(184,278)	62,886,481
Unrestricted	7,971,401	492,076	525,737	342,395	9,331,609
Total net position	\$ 69,444,300	\$ 2,089,936	\$ 525,737	\$ 158,117	\$ 72,218,090

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, 2016

	Business-Type Activities				Total Business-Type Activities
	Major Enterprise Funds				
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	Downtown Kannapolis Fund	
<b>Operating Revenues:</b>					
Charges for services	\$ 14,399,114	\$ 2,449,156	\$ 1,901,954	\$ 720,217	\$ 19,470,441
Water and sewer taps	1,465,679	-	-	-	1,465,679
Other operating revenues	450,150	-	30,305	43,830	524,285
Total operating revenues	16,314,943	2,449,156	1,932,259	764,047	21,460,405
<b>Operating Expenses:</b>					
Administration	717,499	-	-	-	717,499
Distribution	3,026,968	-	-	-	3,026,968
Filter plant	2,333,087	-	-	-	2,333,087
General services	1,466,110	-	-	513,802	1,979,912
Contracted services	-	-	-	432,691	432,691
Sewage treatment	3,012,560	-	-	-	3,012,560
Stormwater	-	1,409,719	-	-	1,409,719
Environmental services	-	-	3,629,417	-	3,629,417
Depreciation and amortization	2,324,895	191,931	-	47,976	2,564,802
Total operating expenses	12,881,119	1,601,650	3,629,417	994,469	19,106,655
Operating income (loss)	3,433,824	847,506	(1,697,158)	(230,422)	2,353,750
<b>Non-Operating Revenues (Expenses):</b>					
Loss on disposal of assets	(43,577)	-	-	-	(43,577)
Interest earned on investments	12,095	-	-	490	12,585
Interest and fees on long-term debt	(1,205,827)	(81,751)	(2,414)	(635,776)	(1,925,768)
Total non-operating revenues (expenses)	(1,237,309)	(81,751)	(2,414)	(635,286)	(1,956,760)
Income (loss) before capital contributions and transfers	2,196,515	765,755	(1,699,572)	(865,708)	396,990
<b>Capital Contributions</b>	1,204,690	-	-	-	1,204,690
<b>Transfers:</b>					
Transfers (out)	(698,405)	-	-	-	(698,405)
Transfers in	-	-	2,034,825	1,023,825	3,058,650
Total transfers	(698,405)	-	2,034,825	1,023,825	2,360,245
Change in net position	2,702,800	765,755	335,253	158,117	3,961,925
<b>Net Position:</b>					
Beginning of year - July 1	66,741,500	1,324,181	190,484	-	68,256,165
End of year - June 30	\$ 69,444,300	\$ 2,089,936	\$ 525,737	\$ 158,117	\$ 72,218,090

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, 2016

	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	\$ 16,039,784	\$ 2,310,377	\$ 1,809,283	\$ 757,338	\$ 20,916,782
Cash paid for goods and services	(8,387,817)	(680,227)	(3,596,097)	(883,715)	(13,547,856)
Cash paid to employees	(2,719,820)	(647,160)	(56,883)	-	(3,423,863)
Net cash provided (used) by operating activities	<u>4,932,147</u>	<u>982,990</u>	<u>(1,843,697)</u>	<u>(126,377)</u>	<u>3,945,063</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>					
Transfers (to) from other funds	(698,405)	-	2,034,825	1,023,825	2,360,245
Net cash provided (used) by non-capital financing activities	<u>(698,405)</u>	<u>-</u>	<u>2,034,825</u>	<u>1,023,825</u>	<u>2,360,245</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Loss on disposal of assets	(26,602)	-	-	-	(26,602)
Proceeds from issuance of long-term debt	-	-	-	11,000,000	11,000,000
Acquisition of capital assets and capital projects	(1,372,198)	-	-	(9,702,285)	(11,074,483)
Principal paid on long-term debt	(2,340,959)	(610,300)	(173,513)	-	(3,124,772)
Interest and fees paid on long-term debt	(1,240,809)	(82,186)	(2,414)	(417,032)	(1,742,441)
Net cash provided (used) by capital and related financing activities	<u>(4,980,568)</u>	<u>(692,486)</u>	<u>(175,927)</u>	<u>880,683</u>	<u>(4,968,298)</u>
<b>Cash Flows from Investing Activities:</b>					
Interest on investments	12,095	-	-	490	12,585
Net increase (decrease) in cash and cash equivalents	<u>(734,731)</u>	<u>290,504</u>	<u>15,201</u>	<u>1,778,621</u>	<u>1,349,595</u>
<b>Cash and Cash Equivalents:</b>					
Beginning of year - July 1	<u>8,923,651</u>	<u>669,945</u>	<u>493,631</u>	<u>-</u>	<u>10,087,227</u>
End of year - June 30	<u>\$ 8,188,920</u>	<u>\$ 960,449</u>	<u>\$ 508,832</u>	<u>\$ 1,778,621</u>	<u>\$ 11,436,822</u>
<b>Reconciliation of Operating Income (Loss) to Provided (Used) By Operating Activities:</b>					
Operating income (loss)	\$ 3,433,824	\$ 847,506	\$ (1,697,158)	\$ (230,422)	\$ 2,353,750
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	2,324,895	191,931	-	47,976	2,564,802
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(292,827)	(138,779)	(122,976)	(6,709)	(561,291)
(Increase) decrease in prepaids	(1,978)	-	-	-	(1,978)
(Increase) decrease in net pension asset	264,722	79,417	8,824	-	352,963
Increase (decrease) in net pension liability	190,485	54,424	-	-	244,909
(Increase) decrease in deferred inflows of resources for pensions	(537,211)	(163,315)	(22,928)	-	(723,454)
(Increase) decrease in deferred outflows of resources for pensions	20,366	8,222	5,607	-	34,195
Increase (decrease) in accounts payable and accrued liabilities	(919,219)	(8,768)	10,162	62,778	(855,047)
Increase (decrease) in other post-employment benefits	431,422	112,352	(25,228)	-	518,546
Increase (decrease) in customer deposits	17,668	-	-	-	17,668
Net cash provided (used) by operating activities	<u>\$ 4,932,147</u>	<u>\$ 982,990</u>	<u>\$ (1,843,697)</u>	<u>\$ (126,377)</u>	<u>\$ 3,945,063</u>
<b>Summary of Non-Cash Activities:</b>					
Capital asset contributions	<u>\$ 1,204,690</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,204,690</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, 2016

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

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

*Fund Financial Statements.* The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

The City reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, federal and State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, sanitation services, cultural and recreational activities, and general governmental services.

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

The City reports the following nonmajor governmental funds:

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

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

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

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

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

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

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

**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.

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

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

The City reports the following major enterprise funds:

**Water and Sewer Fund.** This fund is used to account for the City's water and sewer operations. The City maintains four separate water and sewer capital project funds for accounting purposes: Shiloh Church Road Extension Fund, Revenue Bonds 2014 Fund, 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.

**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.

### C. Measurement Focus and Basis of Accounting

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

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

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

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

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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, 2016

### **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 Cash Portfolio, a SEC-registered (2a-7) external investment pool, 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, 2016

### Cash and Cash Equivalents

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

### Restricted Assets

The unexpended debt proceeds of the Other Governmental Funds and Enterprise Funds for debt issued by the City, are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued. The required debt service reserve in the General Fund is classified as restricted assets because the cash is placed with an escrow agent in which the purpose can only be used to repay debt at maturity. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4.

#### General Fund:

Required debt service reserve	\$ 5,443,385
Powell Bill	<u>57,682</u>
Total	<u>5,501,067</u>

#### Other Governmental Funds:

Unspent debt proceeds restricted for capital outlay	179,871
HUD Section 108 - debt payment reserve	<u>368,146</u>
Total	<u>548,017</u>

#### Enterprise Funds:

Unspent debt proceeds restricted for capital outlay:	
Revenue Bonds 2014	1,406,868
Downtown Fund Loan Proceeds	1,161,413
Customer deposits	<u>349,106</u>
Total	<u>2,917,387</u>

Total restricted cash	<u>\$ 8,966,471</u>
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# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### **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, 2015. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the General Fund, ad valorem tax revenues are reported net of such discounts.

### **Allowance for Doubtful Accounts**

All receivables that have historically experienced uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

### **Interfund Receivables/Payables**

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

### **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and are expensed as the items are used. 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 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 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, 2016

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

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

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

### **Deferred Outflows/Inflows of Resources**

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

### **Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or the proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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



# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### **Compensated Absences**

The vacation policies of the City provide for the accumulation of up to thirty days earned vacation leave, with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The City's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

### **Net Position/Fund Balances**

#### **Net Position**

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

#### **Fund Balances**

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

The governmental fund types classify fund balances as follows:

#### **Non-Spendable Fund Balance**

This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

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

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### Restricted Fund Balance

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

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

*Restricted for Community Development* – portion of fund balance restricted by revenue source for community development activities. \$5,443,385 is restricted in the General Fund for unspent debt proceeds for capital outlay (TIF restrictions) and debt service reserve related to NCRC project. \$368,146 in the CDBG Fund is restricted for HUD Section 108 Loan. \$499,705 in the Transit Tax Fund is restricted by the revenue source for the development of a transit system for the City.

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

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

*Restricted for Public Safety* – portion of fund balance restricted by revenue source for public safety related activities such as police and fire. \$179,871 in the City Office/Public Safety Building Fund is restricted for unspent bond proceeds for the purpose for which the debt was issued.

Restricted fund balance at June 30, 2016 is as follows:

<u>Purpose</u>	<u>General Fund</u>	<u>City Office/ Public Safety Building</u>	<u>Other Governmental Funds</u>
<b>Restricted, All Other:</b>			
Streets	\$ 57,682	\$ -	\$ -
Public safety	-	179,871	-
Community development	5,443,385	-	867,851
Public works	-	-	43,615
<b>Total</b>	<u>\$ 5,501,067</u>	<u>\$ 179,871</u>	<u>\$ 911,466</u>

Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C by the amount of unspent debt proceeds of \$5,623,256 as of June 30, 2016.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### Committed Fund Balance

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

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

*Committed for Police Separation* – portion of fund balance committed by the City Council that will be used for the Law Enforcement Officers' Special Separation Allowance obligations.

Committed fund balance at June 30, 2016 is as follows:

<u>Purpose</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>
Capital projects	\$ -	\$ 219,535
Police Separation	45,630	-
Total	<u>\$ 45,630</u>	<u>\$ 219,535</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, followed in order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Director has the authority to deviate from this policy if it is in the best interest of the City or when required by grant or other contractual agreements.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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	\$ 19,753,212
Less:	
Prepaid items	(220,506)
Stabilization by State statute	<u>(1,970,513)</u>
Fund balance available for appropriation	<u>\$ 17,562,193</u>

### **Pensions**

For purposes of measuring the net pension liability, Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City of 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, 2016

### 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, 2016, the City's deposits had a carrying amount of \$4,500,044 and a bank balance of \$4,660,927. 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, 2016, the City's petty cash fund totaled \$3,220.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### Investments

At June 30, 2016, the City had the following investments and maturities:

<u>Investments by Type</u>	<u>Valuation Measurement Method</u>	<u>Fair Value</u>	<u>Less Than One Year</u>	<u>5+ Years</u>
NC Capital Management Trust - Cash Portfolio	Amortized Cost	\$ 3,899,780	\$ 3,899,780	\$ -
NC Capital Management Trust - Term Portfolio	Fair Value - Level 1	1,053,225	1,053,225	-
Government Agencies	Fair Value - Level 1	2,000,370	-	2,000,370
Commercial Paper	Fair Value - Level 1	18,961,880	18,961,880	-
Repurchase Agreements	Cost	3,580,842	3,580,842	-
Total		<u>\$ 29,496,097</u>	<u>\$ 27,495,727</u>	<u>\$ 2,000,370</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.

*Interest Rate Risk.* The City has a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The policy limits investments to a maximum of five years. The portfolio will be structured so that securities mature concurrently with cash needs, with securities with an active secondary market, and with deposits and investments in highly liquid money market and mutual fund accounts.

*Credit Risk.* State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). To best mitigate against credit risk, the City requires a diversification of investments. The City's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard and Poor's as of June 30, 2016. 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 64% of the City's total investments.

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Receivables**

Receivables at the government-wide level at June 30, 2016 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
<b>Governmental Activities:</b>				
General	\$ 7,724	\$ 1,008,325	\$ 1,973,671	\$ 2,989,720
Governmental	<u>200,785</u>	<u>-</u>	<u>672,739</u>	<u>873,524</u>
Total receivables	208,509	1,008,325	2,646,410	3,863,244
Allowance for doubtful accounts	<u>-</u>	<u>(472,581)</u>	<u>-</u>	<u>(472,581)</u>
Total	<u>\$ 208,509</u>	<u>\$ 535,744</u>	<u>\$ 2,646,410</u>	<u>\$ 3,390,663</u>
<b>Business-Type Activities:</b>				
Water and sewer	\$ 4,731,594	\$ -	\$ 82,819	\$ 4,814,413
Stormwater	382,302	-	13,171	395,473
Environmental services	308,898	-	14,399	323,297
Downtown	-	-	6,709	6,709
Allowance for doubtful accounts	<u>(985,446)</u>	<u>-</u>	<u>-</u>	<u>(985,446)</u>
Total	<u>\$ 4,437,348</u>	<u>\$ -</u>	<u>\$ 117,098</u>	<u>\$ 4,554,446</u>

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

Local option sales tax	\$ 1,421,411
Property taxes	344,577
Other	<u>997,520</u>
Total	<u>\$ 2,763,508</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Capital Assets**

The following is a summary of changes in the governmental capital assets for the year ended June 30, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 13,875,862	\$ 67,895	\$ -	\$ 13,943,757
Construction in progress	<u>22,405,463</u>	<u>10,324,026</u>	<u>-</u>	<u>32,729,489</u>
Total non-depreciable capital assets	<u>36,281,325</u>	<u>10,391,921</u>	<u>-</u>	<u>46,673,246</u>
<b>Depreciable Capital Assets:</b>				
Buildings and improvements	33,934,516	-	26,595	33,961,111
Other improvements	7,133,214	-	(76,500)	7,056,714
Machinery and equipment	16,933,411	1,291,618	(1,205,370)	17,019,659
Infrastructure	<u>152,488,717</u>	<u>1,834,522</u>	<u>-</u>	<u>154,323,239</u>
Total depreciable capital assets	<u>210,489,858</u>	<u>3,126,140</u>	<u>(1,255,275)</u>	<u>212,360,723</u>
<b>Less Accumulated Depreciation:</b>				
Building and improvements	3,908,858	735,105	9,618	4,653,581
Other improvements	1,239,551	155,900	(76,500)	1,318,951
Machinery and equipment	13,218,832	1,039,715	(1,193,896)	13,064,651
Infrastructure	<u>63,138,578</u>	<u>2,423,570</u>	<u>-</u>	<u>65,562,148</u>
Total accumulated depreciation	<u>81,505,819</u>	<u>4,354,290</u>	<u>(1,260,778)</u>	<u>84,599,331</u>
Total depreciable capital assets, net	<u>128,984,039</u>	<u>\$ (1,228,150)</u>	<u>\$ 5,503</u>	<u>127,761,392</u>
Total capital assets, net	<u>\$ 165,265,364</u>			<u>\$ 174,434,638</u>

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

General government	\$ 460,370
Public safety	794,249
Public works	2,466,347
Parks and recreation	<u>633,324</u>
Total depreciation expense	<u>\$ 4,354,290</u>



**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

The following is a summary of changes in the business-type capital assets for the year ended June 30, 2016.

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Water and Sewer Fund:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 730,342	\$ -	\$ -	\$ 730,342
Construction in progress	16,742,408	815,139	-	17,557,547
Total non-depreciable capital assets	<u>17,472,750</u>	<u>815,139</u>	<u>-</u>	<u>18,287,889</u>
<b>Depreciable Capital Assets:</b>				
Buildings	22,946,239	-	(26,595)	22,919,644
Distribution systems	88,391,548	1,268,547		89,660,095
Machinery and equipment	2,533,035	493,202	(101,006)	2,925,231
Total depreciable capital assets	<u>113,870,822</u>	<u>1,761,749</u>	<u>(127,601)</u>	<u>115,504,970</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	8,420,086	369,929	(9,618)	8,780,397
Distribution systems	29,541,665	1,752,648	-	31,294,313
Machinery and equipment	1,930,193	154,096	(101,006)	1,983,283
Total accumulated depreciation	<u>39,891,944</u>	<u>\$ 2,276,673</u>	<u>\$ (110,624)</u>	<u>42,057,993</u>
Total depreciable capital assets, net	<u>73,978,878</u>			<u>73,446,977</u>
Total Water and Sewer Fund capital assets, net	<u>91,451,628</u>			<u>91,734,866</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Stormwater Fund:</b>				
<b>Depreciable Capital Assets:</b>				
Machinery and equipment	936,902	\$ -	\$ 109,111	1,046,013
Infrastructure	<u>7,465,927</u>	-	-	<u>7,465,927</u>
Total depreciable capital assets	<u>8,402,829</u>	-	<u>109,111</u>	<u>8,511,940</u>
<b>Less Accumulated Depreciation:</b>				
Machinery and equipment	583,601	74,925	109,111	767,637
Infrastructure	<u>2,475,118</u>	<u>117,006</u>	-	<u>2,592,124</u>
Total accumulated depreciation	<u>3,058,719</u>	<u>\$ 191,931</u>	<u>\$ 109,111</u>	<u>3,359,761</u>
Total depreciable capital assets, net	<u>5,344,110</u>			<u>5,152,179</u>
Total Stormwater Fund capital assets, net	<u>5,344,110</u>			<u>5,152,179</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Downtown Fund:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	-	\$ 5,657,070	\$ -	5,657,070
Total non-depreciable capital assets	-	5,657,070	-	5,657,070
<b>Depreciable Capital Assets:</b>				
Buildings	-	4,023,484	-	4,023,484
Machinery and equipment	-	21,731	-	21,731
Total depreciable capital assets	-	4,045,215	-	4,045,215
<b>Less Accumulated Depreciation:</b>				
Buildings	-	46,941	-	46,941
Machinery and equipment	-	1,035	-	1,035
Total accumulated depreciation	-	\$ 47,976	\$ -	47,976
Total depreciable capital assets, net	-			3,997,239
Total Downtown Fund capital assets, net	-			9,654,309
Total business-type capital assets, net	\$ 96,795,738			\$ 106,541,354

**Proprietary Intangible Assets**

The intangible assets of the Water and Sewer Fund at June 30, 2016 were as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Intangible Assets:</b>				
Rowan County water rights	\$ 2,411,100	\$ -	\$ -	\$ 2,411,100
Less accumulated amortization	(626,886)	(48,222)	-	(675,108)
Intangible assets, net	\$ 1,784,214	\$ (48,222)	\$ -	\$ 1,735,992

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Construction Commitments**

The City has active construction projects as of June 30, 2016. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>	<u>Total Contract</u>
City office/public safety building	\$ 27,950,371	\$ 955,154	\$ 28,905,525
Water and sewer bond projects	721,197	155,610	876,807

**B. Liabilities**

**Payables**

Payables at the government-wide level at June 30, 2016 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>IBNR</u>	<u>Total</u>
<b>Governmental Activities:</b>				
General	\$ 727,692	\$ 1,004,399	\$ 783,607	\$ 2,515,698
Other governmental	929,876	-	-	929,876
Total payables	<u>\$ 1,657,568</u>	<u>\$ 1,004,399</u>	<u>\$ 783,607</u>	<u>\$ 3,445,574</u>
<b>Business-Type Activities:</b>				
Water and sewer	\$ 618,049	\$ 91,581	\$ -	\$ 709,630
Stormwater	10,587	20,695	-	31,282
Environmental services	292,811	-	-	292,811
Downtown	62,778	218,744	-	281,522
Total payables	<u>\$ 984,225</u>	<u>\$ 331,020</u>	<u>\$ -</u>	<u>\$ 1,315,245</u>

**Pension Plan and Post-Employment Obligations**

**Local Governmental Employees' Retirement System**

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

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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, 2016, was 7.15% of compensation for law enforcement officers and 6.74% for general employees and firefighters,

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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 \$1,055,969 for the year ended June 30, 2016.

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

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

At June 30, 2016, the City reported a liability of \$1,360,608 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the City's proportion was 0.003032%, which was an increase of 0.00392% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$737,088. At June 30, 2016, 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	\$ -	\$ 319,825
Net difference between projected and actual earnings on pension plan investments	-	387,361
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	368,678
Employer contributions subsequent to the measurement date	1,055,969	-
Total	\$ 1,055,969	\$ 1,075,864

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

\$1,055,969 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, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending</b>	
<b>June 30</b>	<b>Amount</b>
2017	\$ (563,335)
2018	(563,335)
2019	(562,133)
2020	612,939
2021	-
Total	<u>\$ (1,075,864)</u>

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

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

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

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

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

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

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2015 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%	2.5%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	<u>6.0%</u>	3.4%
Total	<u>100%</u>	

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

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



**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

	<b>1% Decrease</b>	<b>Discount</b>	<b>1% Increase</b>
	<b>(6.25%)</b>	<b>Rate (7.25%)</b>	<b>(8.25%)</b>
City's proportionate share of the net pension liability (asset)	<u>\$ 9,487,716</u>	<u>\$ 1,360,608</u>	<u>\$ (5,486,299)</u>

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

**Law Enforcement Officers' Special Separation Allowance**

**Plan Description.** The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified full-time employees. The Separation Allowance is equal to 0.85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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, 2015, the Separation Allowance's membership consisted of:

	<b>Law Enforcement Officers</b>
Retirees receiving benefits	22
Active plan members	318
Total	<u>340</u>

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### Summary of Significant Accounting Policies

*Basis of Accounting.* The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on 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 following criteria which are outlined in GASB Statements 67 and 68:

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

*Method Used to Value Investments.* No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

**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.

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return and (b) projected salary increases ranging from 4.25% to 7.85% per year for law enforcement officers, ranging from 4.25% to 8.55% per year for firefighters, and 4.25% to 7.75% per year for general employees. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was the market value. The remaining amortization period at December 31, 2014 was 16 years.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

Employer annual required contribution	\$	574,726
Interest on net pension obligation		73,343
Adjustment to annual required contribution		(128,901)
Annual pension cost		519,168
Benefit payments made		344,257
Increase (decrease) in net pension obligation		174,911
Net pension obligation:		
Beginning of year - July 1		1,466,853
End of year - June 30	\$	1,641,764

### Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2014	\$ 471,159	59.85%	\$ 1,282,909
2015	486,744	62.21%	1,466,853
2016	519,168	66.31%	1,641,764

### Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability and unfunded actuarial accrued liability (UAAL) for benefits was \$6,217,278. The covered payroll (annual payroll of active employees covered by the plan) was \$15,604,787, and the ratio of the UAAL to the covered payroll was 39.84 percent.

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

### Supplemental Retirement Income Plan Law Enforcement Officers

**Plan Description.** The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the Pension Trust Fund

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

financial statements for the Internal Revenue Code Section 401(k) Plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016 were \$279,631, which consisted of \$196,911 from the City and \$82,720 from the law enforcement officers.

### **Deferred Compensation Plan**

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

The City has complied with changes in the laws that govern the City's deferred compensation plan, requiring all assets of the plan to be held in trust for the exclusive benefit of the participants and their beneficiaries. Formerly, the undistributed amounts, which had been deferred by the plan participants, were required to be reported as assets of the City. In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the City's deferred compensation plan is no longer reported within the City's agency funds. The City contributes to the plan on behalf of the City Manager. During the year ended June 30, 2016, the City contributed \$8,083 to this account.

### **Other Post-Employment Benefits**

**Plan Description.** The City has established a policy as a single-employer defined benefit plan providing group medical and dental benefits to employees eligible to retire under the requirements of the Local Government Employees' Retirement System noted above. Currently, sixty-six (66) retirees are eligible. The benefit provided by the City varies from 0% to 75% of the monthly premium, depending on years of service. The retiree is required to make up the difference in the benefit provided and the actual cost of the insurance. The coverage provided is the same type as was in effect immediately preceding the retirement date. If the retiree is or becomes eligible for Medicare, the City's policy pays secondary to Medicare. A separate report was not issued for the plan.

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

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

	<b>Law</b>		
	<b>General</b>	<b>Enforcement</b>	
	<u><b>Employees</b></u>	<u><b>Officers</b></u>	<u><b>Firefighters</b></u>
Retirees and dependents receiving benefits	66	-	-
Active plan members	<u>143</u>	<u>79</u>	<u>85</u>
Total	<u><u>209</u></u>	<u><u>79</u></u>	<u><u>85</u></u>

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

The current ARC rate is 21% of annual covered payroll. For the current year, the City contributed \$299,472, or 2% of annual covered payroll. Retirees pay 100%, 50%, or 25% of the premiums, based on their creditable years of retirement service. Employee health coverage is self-insured and administered through a third-party insurer. The City's obligation to contribute to the plan is established and may be amended by the City Council.

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

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Annual OPEB Cost and Net OPEB Obligation.** The City’s annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 3,129,197
Interest on net OPEB obligation	498,443
Adjustments to annual required contribution	<u>(476,168)</u>
Annual OPEB cost (expense)	3,151,472
Contributions made	<u>(299,472)</u>
Increase (decrease) in net OPEB obligation	2,852,000
Net OPEB obligation:	
Beginning of year - July 1	<u>12,461,076</u>
End of year - June 30	<u><u>\$ 15,313,076</u></u>

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

<b>3 Year Trend Information</b>			
<b>Year Ended</b>	<b>Annual</b>	<b>Percentage of</b>	<b>Net</b>
<b>June 30</b>	<b>OPEB</b>	<b>Annual OPEB</b>	<b>OPEB</b>
	<b>Cost</b>	<b>Cost Contributed</b>	<b>Obligation</b>
2014	\$ 2,802,757	4.9%	\$10,238,363
2015	2,891,197	23.1%	12,461,076
2016	3,151,472	9.5%	15,313,076

**Funding Status and Funding Progress.** As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$33,060,656. The covered payroll (annual payroll of active employees covered by the plan) was \$13,968,728, and the ratio of the UAAL to the covered payroll was 236.7 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

**Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

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

As of June 30, 2016, management had not decided on the funding options for this outstanding obligation; therefore, OPEB will continue to be funded on a pay-as-you-go basis going into the next fiscal year. Management will continue their efforts to find a way to fund the annual required contribution while maintaining the level of service as prioritized by the City Council.

### **Other Employment Benefits**

The City has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death, are eligible for death benefits. Lump-sum death benefit payments are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 and be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. The City has no liability beyond the payment of monthly contributions. The contributions to the Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The City considers these contributions to be immaterial.

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Deferred Outflows and Inflows of Resources**

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

	<b>Deferred Outflows of Resources</b>
<i>Governmental Activities:</i>	
<b>General Fund:</b>	
Contributions to pension plan in current fiscal year	<u>\$ 1,055,969</u>

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

	<b>Deferred Inflows of Resources</b>
Prepaid taxes (General Fund)	\$ 70,580
Taxes receivable, net (General Fund)	535,744
Cabarrus County contribution - fire station (General Fund)	291,362
Differences between expected and actual experience	319,825
Net difference between projected and actual earnings on pension plan investments	387,361
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>368,678</u>
Total	<u>\$ 1,973,550</u>



**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**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, 2015</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2016</b>	<b>Portion</b>
Notes payable	\$ 9,850,170	\$ -	\$ 1,227,481	\$ 8,622,689	\$ 1,173,385
U.S. government obligations	643,000	-	190,000	453,000	203,000
Limited obligation bonds	55,320,000	-	2,275,000	53,045,000	3,105,000
Premium on debt issuance	2,272,933	-	121,233	2,151,700	121,223
Net pension liability (LGERS)	-	1,115,699	-	1,115,699	-
Compensated absences	890,705	1,663,944	1,505,722	1,048,927	786,695
Other post-employment benefits	9,860,690	2,578,478	245,023	12,194,145	-
Net pension obligation (LEO)	1,466,853	519,168	344,257	1,641,764	-
<b>Total</b>	<b>\$ 80,304,351</b>	<b>\$ 5,877,289</b>	<b>\$ 5,908,716</b>	<b>\$ 80,272,924</b>	<b>\$ 5,389,303</b>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**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.	\$ 522,386
2.08% note, payable in semi-annual installments of \$82,190, excluding interest beginning September, 2013 through March 2023; secured by a municipal building and a fire truck	1,136,091
2.0% note, payable in semi-annual installments of \$26,133, excluding interest beginning October 2012 through June 2021; secured by park building	261,333
1.98% note, payable in semi-annual installments ranging from \$109,245 to \$414,098, including interest beginning June, 2013 through June, 2023; secured by street improvements and a fire station	3,270,372
0% note, payable to County in annual installments of \$62,500, beginning April 2014 through April 2061, secured by the stadium	2,812,500
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.	<u>620,007</u>
Total	<u>\$ 8,622,689</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, 2016**

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.

<b>Date Issued</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Annual Payments</b>		<b>Balance June 30, 2016</b>	
			<b>General Fund</b>	<b>Enterprise Fund</b>	<b>General Fund</b>	<b>Enterprise Fund</b>
Feb 2010	3.17%	Feb 2017	\$ 147,345	\$ -	\$ 100,850	\$ -
June 2011	4.05%	June 2025	42,154	94,090	421,536	940,895
Total			<u>\$ 189,499</u>	<u>\$ 267,604</u>	<u>\$ 522,386</u>	<u>\$ 940,895</u>

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

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 1,173,385	\$ 114,817	\$ 1,288,202
2018	1,063,408	93,717	1,157,125
2019	1,055,317	74,007	1,129,324
2020	1,036,569	54,526	1,091,095
2021	734,252	36,790	771,042
2022 - 2026	1,401,226	42,277	1,443,503
2027 - 2031	312,500	1,067	313,567
2032 - 2036	312,500	-	312,500
2037 - 2041	312,500	-	312,500
2042 - 2046	312,500	-	312,500
2047 - 2051	312,500	-	312,500
2052 - 2056	312,500	-	312,500
2057 - 2061	283,532	-	283,532
Total	<u>\$ 8,622,689</u>	<u>\$ 417,201</u>	<u>\$ 9,039,890</u>

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

A Section 108 loan of \$1,658,000 was executed on August 9, 2001 with the Department of Housing and Urban Development. A principal payment of \$140,000 was due August 2016. Principal payments increase in \$5,000 increments yearly until the last year of the loan, fiscal year 2017, when the balance is due. Interest is due semi-annually at rates from 5.49% to 5.29% on February 1 and August 1, respectively. This obligation is to be used in the construction of Gateway Business Park. The principal balance due at June 30, 2016 was \$153,000.

A Section 108 loan of \$742,000 was executed on August 28, 2006 with the Department of Housing and Urban Development. A principal payment of \$50,000 was due August 2016. Principal payments are \$49,000 until August 2015 when they increase to \$50,000. Interest is due semi-annually at rates from 4.96% to 5.57%, on February 1 and August 1, respectively. This obligation is to be used in the construction of Gateway Business Park. The principal balance due at June 30, 2016 was \$300,000.

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

<b>Year Ending</b>				
<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
2017	\$ 203,000	\$ 15,815	\$ 218,815	
2018	50,000	12,280	62,280	
2019	50,000	9,610	59,610	
2020	50,000	6,903	56,903	
2021	50,000	4,162	54,162	
2022	50,000	1,393	51,393	
Total	<u>\$ 453,000</u>	<u>\$ 50,163</u>	<u>\$ 503,163</u>	

### Limited Obligation Bonds

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

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Approximately 50% of the Limited Obligation Bonds were issued to provide funds for the acquisition of property and construction of a new health department, operated and managed by the Cabarrus Health Alliance. The Health Alliance building is a three-story, 62,503 square-foot facility located on approximately 3.4 acres of land east of D Street and south of Juniper Street, just west of its intersection with Dale Earnhardt Boulevard in the City. The remaining 50% of the limited obligation bonds were issued with the intention to provide funds for the construction of various infrastructure projects. These projects include Veteran's Park, street, sidewalk, streetscape improvements, and park and recreation improvements. As the development of the NCRC continues in the future, the City will consider financing additional infrastructure projects as may be necessary to support such development.

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

The City's limited obligation bonds payable at June 30, 2016 are comprised of the following individual issues:

- Series 2010A Limited Obligation Bonds, \$9,135,000
- Series 2010B Limited Obligation Bonds, \$19,310,000
- Series 2014 Limited Obligation Bonds, \$24,600,000

### **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. \$ 28,445,000

\$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. 24,600,000

Total \$ 53,045,000

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>June 30</b>			
2017	\$ 3,105,000	\$ 2,902,974	\$ 6,007,974
2018	3,195,000	2,761,424	5,956,424
2019	3,285,000	2,615,374	5,900,374
2020	5,030,000	2,464,824	7,494,824
2021	3,525,000	2,213,324	5,738,324
2022 - 2026	19,215,000	7,555,937	26,770,937
2027 - 2031	11,595,000	1,928,356	13,523,356
2032 - 2034	4,095,000	307,006	4,402,006
Total	<u>\$ 53,045,000</u>	<u>\$ 22,749,219</u>	<u>\$ 75,794,219</u>

With the Series 2014 Limited Obligation Bonds, a premium of \$2,303,246 will be amortized over the life of the bonds as follows. In the current year, \$121,223 of amortization expense was recognized.

<b>Year Ending</b>	<b>Principal</b>
<b>June 30</b>	
2017	\$ 121,223
2018	121,223
2019	121,223
2020	121,223
2021	121,223
2022 - 2026	606,115
2027 - 2031	606,115
2032 - 2034	333,355
Total	<u>\$ 2,151,700</u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Current</u> <u>Maturities</u>
<b>Water and Sewer Fund:</b>					
Revenue bonds	\$ 31,325,159	\$ -	\$ 1,959,530	\$ 29,365,629	\$ 2,032,301
Notes payable	2,684,635	-	381,429	2,303,206	316,809
Net pension liability (LGERS)	-	190,485	-	190,485	-
Other post-employment benefits	2,003,404	448,846	17,424	2,434,826	-
Compensated absences	<u>112,792</u>	<u>226,737</u>	<u>215,423</u>	<u>124,106</u>	<u>93,080</u>
Total	<u>36,125,990</u>	<u>866,068</u>	<u>2,573,806</u>	<u>34,418,252</u>	<u>2,442,190</u>
<b>Stormwater Fund:</b>					
Notes payable	4,164,619	-	610,300	3,554,319	604,205
Net pension liability (LGERS)	-	54,424	-	54,424	-
Other post-employment benefits	571,754	124,149	11,797	684,106	-
Compensated absences	<u>25,061</u>	<u>65,144</u>	<u>62,061</u>	<u>28,144</u>	<u>21,108</u>
Total	<u>4,761,434</u>	<u>243,717</u>	<u>684,158</u>	<u>4,320,993</u>	<u>625,313</u>
<b>Environmental Services Fund:</b>					
Notes payable	173,513	-	173,513	-	-
Other post-employment benefits	<u>25,228</u>	<u>-</u>	<u>25,228</u>	<u>-</u>	<u>-</u>
Total	<u>198,741</u>	<u>-</u>	<u>198,741</u>	<u>-</u>	<u>-</u>
<b>Downtown Fund:</b>					
Notes payable	<u>-</u>	<u>11,000,000</u>	<u>-</u>	<u>11,000,000</u>	<u>734,000</u>
Total	<u>-</u>	<u>11,000,000</u>	<u>-</u>	<u>11,000,000</u>	<u>734,000</u>
<b>Business-Type Activities:</b>					
Revenue bonds	31,325,159	-	1,959,530	29,365,629	2,032,301
Notes payable	7,022,767	11,000,000	1,165,242	16,857,525	1,655,014
Net pension liability (LGERS)	-	244,909	-	244,909	-
Other post-employment benefits	2,600,386	572,995	54,449	3,118,932	-
Compensated absences	<u>137,853</u>	<u>291,881</u>	<u>277,484</u>	<u>152,250</u>	<u>114,188</u>
Total	<u>\$ 41,086,165</u>	<u>\$ 12,109,785</u>	<u>\$ 3,456,705</u>	<u>\$ 49,739,245</u>	<u>\$ 3,801,503</u>

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Total debt used in the calculation of the net investment in capital assets, for business-type activities is reduced by unexpended debt proceeds of \$2,568,281 for the Water and Sewer Fund.

At June 30, 2016, the City had no authorized, but unissued, debt and a legal debt margin of \$218,503,377.

### Revenue Bonds

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

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

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

\$5,324,000 Enterprise System Revenue Bonds, Series 2002, with an interest-only payment in February of 2003, and equal payments of \$235,922 semi-annually August 1 and February 1, starting in 2003 until 2018; interest rate is 3.89%	\$ 899,529
\$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%	11,176,100
\$18,245,000 Enterprise System Revenue Bonds, Series 2013, due annually in amounts ranging from \$470,000 to \$1,030,000 through April 2038; interest ranging from 3.00% to 4.75%	<u>17,290,000</u>
Total	<u>\$29,365,629</u>



# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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>
2017	\$ 2,032,301	\$ 1,082,225	\$ 3,114,526
2018	2,098,028	1,013,742	3,111,770
2019	1,691,300	947,559	2,638,859
2020	1,734,000	898,539	2,632,539
2021	1,799,800	837,080	2,636,880
2022 - 2026	8,755,200	3,269,948	12,025,148
2027 - 2031	4,005,000	2,181,169	6,186,169
2032 - 2036	4,940,000	1,246,956	6,186,956
2037 - 2038	2,310,000	165,775	2,475,775
Total	<u>\$ 29,365,629</u>	<u>\$ 11,642,993</u>	<u>\$ 41,008,622</u>

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

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

The debt service parity coverage ratio calculation for the year ended June 30, 2016 is as follows:

2016 budgeted revenues	\$ 16,238,000
50% of surplus fund at June 30, 2015	592,638
2016 budgeted expenses *	<u>(6,605,892)</u>
Operating income	<u>\$ 10,224,746</u>
Debt service on parity indebtedness	\$ 3,737,431
Debt service on subordinate indebtedness	<u>392,732</u>
Total	<u>\$ 4,130,163</u>
Debt service parity coverage ratio	<u>248%</u>

2016 budgeted revenues	\$ 16,238,000
2016 budgeted expenses *	<u>(6,605,892)</u>
Operating income	<u>\$ 9,632,108</u>
Debt service on parity indebtedness	\$ 3,425,979
Debt service on subordinate indebtedness	<u>392,732</u>
Total	<u>\$ 3,818,711</u>
Debt service parity coverage ratio	<u>252%</u>

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

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$39,969,300 in water and sewer system revenue bonds issued in 2002, 2011, and 2013. Proceeds from the bonds provided financing for water and sewer extensions and water treatment plant renovations. The bonds are payable solely from water and sewer customer net revenues and are payable through 2038. Annual principal and interest payments on the bonds are expected to require about 21 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$29,365,629. Principal and interest paid for in the current year and total customer net revenues were \$3,107,753 and \$16,314,943, respectively.

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### Business-Type Activities – Notes Payable:

2.22% note, payable in annual installments of \$86,800, due in May with interest payable semi-annually, beginning August 2011 through August 2016; secured by water and sewer distribution assets. Note was issued by the State Clean Water Program.	\$ 21,700
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	459,802
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	392,039
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.	242,747
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	421,640
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	895,909
1.98% note, payable in semi-annual installments ranging from \$75,478 to \$286,104, including interest beginning June, 2013 through June, 2023; secured by street and stormwater improvements	2,306,797
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.	940,895
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.	175,996
4.77% note, payable in annual installments of \$734,000, including interest beginning February 1, 2016 through August 1, 2030; secured by land and improvements associated with Downtown Kannapolis.	<u>11,000,000</u>
Total	<u><u>\$ 16,857,525</u></u>

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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>
2017	\$ 1,655,014	\$ 653,020	\$ 2,308,034
2018	1,626,621	595,896	2,222,517
2019	1,620,792	538,998	2,159,790
2020	1,606,300	482,235	2,088,535
2021	1,445,292	426,447	1,871,739
2022 - 2026	5,118,502	1,403,460	6,521,962
2027 - 2031	3,785,004	441,190	4,226,194
<b>Total</b>	<b>\$ 16,857,525</b>	<b>\$ 4,541,246</b>	<b>\$ 21,398,771</b>

**3. Interfund Balances and Activity**

Balances due to/from other funds at June 30, 2016 consist of the following:

<b>Due To/From Fund</b>	<b>Receivable (Payable) Amount</b>	<b>Purpose</b>
General Fund	\$ 280,480	
Nonmajor governmental funds:		
Capital Projects - Glen Afton to Goodman Road	(200,157)	Advance for capital projects
CDBG fund	(80,323)	Advance for grants
<b>Total</b>	<b>\$ (280,480)</b>	

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

Interfund transfers for the fiscal year ended June 30, 2016 consist of the following:

	<u>From</u>	<u>To</u>	<u>Purpose</u>
General Fund	\$ 840,200	\$ -	
Nonmajor governmental funds:			
Transit Fund	-	315,200	Operating expenditures
Village Park Phase III	-	500,000	Capital expenditures
Fire Stations	-	25,000	Capital expenditures
 General Fund	 2,333,650	 -	
Major enterprise funds:			
Downtown Fund	-	1,023,825	Capital expenditures
Environmental Services Fund	-	1,309,825	Operating expenditures
Water and Sewer Fund	725,000	-	
Environmental Services Fund	<u>-</u>	<u>725,000</u>	Operating expenditures
 Total	 <u>\$ 3,898,850</u>	 <u>\$ 3,898,850</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 \$3,044,310 from WSACC for the year ended June 30, 2016.

**5. Significant Economic Dependence**

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

# CITY OF KANNAPOLIS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### 6. Risk Management

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

The City's coverage is as follows:

Property	\$86,010,362 property, inland marine - equipment \$2,128,101; computer equipment/media, \$2,062,154; fine arts \$342,675; and portable equipment \$1,158,049
Impounded Auto	\$100,000 each accident
Police Official's Liability	\$1,000,000 per occurrence, \$3,000,000 aggregate
Public Official's Liability	\$1,000,000 per occurrence, \$3,000,000 aggregate
General Liability	\$5,000,000 per occurrence, \$5,000,000 aggregate
Automobile Liability	\$5,000,000; uni \$1,000,000
Workers' Compensation	Legal limits, \$500,000 retention
Employee Crime/Dishonesty	\$250,000 per occurrence
Employment Practices	\$1,000,000 per occurrence, \$3,000,000 aggregate
Finance Director Bond	\$50,000
Tax Collector	\$10,000
Employee Benefits Liability	\$1,000,000 per occurrence, \$1,000,000 aggregate
Liquor	\$1,000,000 per occurrence, \$1,000,000 aggregate

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

The City does not carry flood insurance.

There have been no significant reductions in insurance coverage from the prior year, and claims have not exceeded coverage in any of the last three fiscal years.

In accordance with G.S. 159-29, the City's employees who have access to \$100 or more at any given time of the City's funds are performance bonded through a commercial surety bond. The Finance Director and the Tax Collector are each individually bonded for \$50,000 and \$10,000, respectively. The remaining employees who have access to funds are bonded under a blanket bond for \$250,000.

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

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

	<u>2016</u>	<u>2015</u>
Unpaid claims:		
Beginning of year - July 1	\$ 116,551	\$ 143,343
Incurred claims	2,167,450	2,049,859
Claim payments	<u>(2,100,462)</u>	<u>(2,076,651)</u>
End of year - June 30	<u>\$ 183,539</u>	<u>\$ 116,551</u>

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

	<u>2016</u>	<u>2015</u>
Unpaid claims:		
Beginning of year - July 1	\$ 295,586	\$ 201,143
Incurred claims	582,320	416,714
Claim payments	<u>(268,420)</u>	<u>(322,271)</u>
End of year - June 30	<u>\$ 609,486</u>	<u>\$ 295,586</u>

Claims typically have been liquidated in the General Fund.

**7. Claims and Judgments**

At June 30, 2016, 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, 2016**

**9. Net Investment in Capital Assets**

The City's net investment in capital assets at June 30, 2016 is calculated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net capital assets	\$ 174,434,638	\$ 106,541,354
Total debt, gross	64,272,389	46,223,154
Less:		
Unexpended proceeds	<u>179,871</u>	<u>2,568,281</u>
Total capital debt	<u>64,092,518</u>	<u>43,654,873</u>
Net investment in capital assets	<u>\$ 110,342,120</u>	<u>\$ 62,886,481</u>

**10. Change in Accounting Principles**

In accordance with Governmental Accounting Standards Board (GASB) Statement 73, the City reclassified the Law Enforcement Officers' Special Separation Allowance Trust Fund to the General Fund. As a result, net position for the governmental activities and fund balance for the General Fund increased by \$24,887.



## **Required Supplemental Financial Data**

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

*Special Separation Allowance* – Schedule of Funding Progress

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

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

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## CITY OF KANNAPOLIS, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016

## Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a) / c
12/31/2006	\$ 115,781	\$ 2,141,235	\$ 2,025,454	5.41%	\$ 9,612,783	21.07%
12/31/2007	142,922	2,598,764	2,455,842	5.50%	10,015,403	24.52%
12/31/2008	163,079	2,801,646	2,638,567	5.82%	11,668,966	22.61%
12/31/2009	56,994	3,737,469	3,680,475	1.52%	12,177,773	30.22%
12/31/2010	1,128	3,492,402	3,491,274	0.03%	11,939,634	29.24%
12/31/2011	-	3,637,669	3,637,669	0.00%	12,285,668	29.61%
12/31/2012	170,783	3,975,556	3,804,773	4.30%	13,411,478	28.37%
12/31/2013	33,075	3,981,564	3,948,489	0.83%	13,224,784	29.86%
12/31/2014	31,500	4,125,324	4,093,824	0.76%	14,025,038	29.19%
12/31/2015	-	6,217,278	6,217,278	0.00%	15,604,787	39.84%

**Notes to the Required Schedules:**

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

Valuation date	December 31, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar closed
Remaining amortization period	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	3.57%
Projected salary increases *	
Law enforcement officers	3.5 - 7.35%
Firefighters	3.5 - 7.75%
General employees	3.5 - 7.75%
* Includes inflation at	3.00%
Cost-of-living adjustments	N/A

## CITY OF KANNAPOLIS, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016

## Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected			Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		Unit Credit Method (b)	Unfunded AAL (UAAL) (b - a)				
12/31/2007	\$ -	\$ 16,443,235	\$ 16,443,235	0.00%	\$ 10,015,403	164.2%	
12/31/2009	-	19,485,853	19,485,853	0.00%	12,177,773	160.0%	
12/31/2012	-	28,628,936	28,628,936	0.00%	13,000,134	220.2%	
12/31/2014	-	33,060,656	33,060,656	0.00%	13,968,728	236.7%	

## Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2010	\$ 1,595,265	27.0%
2011	1,858,549	26.3%
2012	1,858,549	43.1%
2013	2,789,218	10.9%
2014	2,789,218	5.0%
2015	2,872,895	23.3%
2016	3,129,197	9.6%

## Notes to the Required Schedules:

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

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

\* Includes inflation at 3.0%

## CITY OF KANNAPOLIS, NORTH CAROLINA

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability (asset) (%)	0.3032%	0.2992%	0.3131%
Proportion of the net pension liability (asset) (\$)	\$ 1,360,608	\$ (1,764,816)	\$ 3,774,057
Covered-employee payroll	\$ 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	8.69%	-12.67%	30.11%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

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

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

## CITY OF KANNAPOLIS, NORTH CAROLINA

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,055,969	\$ 1,121,348	\$ 992,728
Contributions in relation to the contractually required contribution	<u>1,055,969</u>	<u>1,121,348</u>	<u>992,728</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 15,428,072	\$ 15,658,317	\$ 13,923,927
Contributions as a percentage of covered-employee payroll	6.84%	7.16%	7.13%

## **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, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
<b>Ad Valorem Taxes:</b>			
Current year, net of refund	\$ 22,327,830	\$ 23,327,309	\$ 999,479
Prior year, net of refunds	<u>375,000</u>	<u>481,496</u>	<u>106,496</u>
Total	<u>22,702,830</u>	<u>23,808,805</u>	<u>1,105,975</u>
<b>Other Taxes and Licenses:</b>			
ABC mixed beverages	90,000	180,859	90,859
Vehicle licenses	315,000	380,629	65,629
Local option sales tax	7,497,500	8,167,848	670,348
Other taxes and licenses	<u>4,750</u>	<u>5,926</u>	<u>1,176</u>
Total	<u>7,907,250</u>	<u>8,735,262</u>	<u>828,012</u>
<b>Unrestricted Intergovernmental:</b>			
Franchise tax	2,335,000	2,749,143	414,143
Beer and wine	<u>200,000</u>	<u>195,433</u>	<u>(4,567)</u>
Total	<u>2,535,000</u>	<u>2,944,576</u>	<u>409,576</u>
<b>Restricted Intergovernmental:</b>			
"State Street-Aid" allocation	1,251,500	1,280,133	28,633
TIF contribution Cabarrus County	<u>1,512,803</u>	<u>1,523,335</u>	<u>10,532</u>
Total	<u>2,764,303</u>	<u>2,803,468</u>	<u>39,165</u>
<b>Sales and Services:</b>			
Public safety fees	106,500	118,001	11,501
Rents	88,000	91,172	3,172
Other fees	<u>405,000</u>	<u>536,232</u>	<u>131,232</u>
Total	<u>599,500</u>	<u>745,405</u>	<u>145,905</u>
<b>Investment Earnings</b>	<u>120,000</u>	<u>193,992</u>	<u>73,992</u>
<b>Miscellaneous</b>	<u>1,018,620</u>	<u>908,348</u>	<u>(110,272)</u>
Total revenues	<u>37,647,503</u>	<u>40,139,856</u>	<u>2,492,353</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, 2016**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Over/Under</b>
<b>Expenditures:</b>			
<b>General Government:</b>			
<b>Governing Body:</b>			
Salaries and employee benefits	76,551	71,449	5,102
Operating expenditures	<u>167,300</u>	<u>138,176</u>	<u>29,124</u>
Total	<u>243,851</u>	<u>209,625</u>	<u>34,226</u>
<b>City Manager:</b>			
Salaries and employee benefits	775,398	772,569	2,829
Operating expenditures	<u>66,000</u>	<u>60,931</u>	<u>5,069</u>
Total	<u>841,398</u>	<u>833,500</u>	<u>7,898</u>
<b>Human Resources:</b>			
Salaries and employee benefits	322,500	321,466	1,034
Operating expenditures	81,408	71,572	9,836
Capital outlay	<u>19,300</u>	<u>19,255</u>	<u>45</u>
Total	<u>423,208</u>	<u>412,293</u>	<u>10,915</u>
<b>Attorney:</b>			
Salaries and employee benefits	233,241	233,202	39
Operating expenditures	<u>87,478</u>	<u>79,871</u>	<u>7,607</u>
Total	<u>320,719</u>	<u>313,073</u>	<u>7,646</u>
<b>Finance:</b>			
Salaries and employee benefits	608,950	606,019	2,931
Operating expenditures	<u>302,175</u>	<u>290,829</u>	<u>11,346</u>
Total	<u>911,125</u>	<u>896,848</u>	<u>14,277</u>
<b>Information Technology:</b>			
Contract services	413,070	413,035	35
Operating expenditures	520,624	520,215	409
Capital outlay	<u>139,498</u>	<u>139,498</u>	<u>-</u>
Total	<u>1,073,192</u>	<u>1,072,748</u>	<u>444</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, 2016**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Over/Under</b>
<b>General Services:</b>			
Salaries and employee benefits	470,299	471,065	(766)
Operating expenditures	670,820	637,312	33,508
Capital outlay	69,904	69,903	1
Total	<u>1,211,023</u>	<u>1,178,280</u>	<u>32,743</u>
<b>Economic Development:</b>			
Operating expenditures	<u>798,900</u>	<u>747,051</u>	<u>51,849</u>
<b>Communications:</b>			
Operating expenditures	<u>220,750</u>	<u>194,296</u>	<u>26,454</u>
<b>Non-Departmental:</b>			
Operating expenditures	<u>113,838</u>	<u>264,158</u>	<u>(150,320)</u>
Total general government	<u>6,158,004</u>	<u>6,121,872</u>	<u>36,132</u>
<b>Public Safety:</b>			
<b>Police:</b>			
Salaries and employee benefits	6,693,234	6,677,169	16,065
Operating expenditures	1,349,442	1,235,941	113,501
Capital outlay	584,262	571,720	12,542
Total	<u>8,626,938</u>	<u>8,484,830</u>	<u>142,108</u>
<b>Fire:</b>			
Salaries and employee benefits	5,830,381	5,813,566	16,815
Operating expenditures	1,134,919	1,112,038	22,881
Capital outlay	30,000	30,000	-
Total	<u>6,995,300</u>	<u>6,955,604</u>	<u>39,696</u>
Total public safety	<u>15,622,238</u>	<u>15,440,434</u>	<u>181,804</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, 2016**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Over/Under</b>
<b>Public Works:</b>			
<b>Engineering:</b>			
Salaries and employee benefits	442,299	439,752	2,547
Operating expenditures	52,304	43,886	8,418
Capital outlay	121,284	121,284	-
Contract services	725,500	723,860	1,640
Total	<u>1,341,387</u>	<u>1,328,782</u>	<u>12,605</u>
<b>Streets and Highways:</b>			
Salaries and employee benefits	183,313	177,240	6,073
Operating expenditures	1,129,958	1,077,122	52,836
Capital outlay	287,035	278,092	8,943
Total	<u>1,600,306</u>	<u>1,532,454</u>	<u>67,852</u>
<b>Powell Bill:</b>			
Salaries and employee benefits	405,013	397,360	7,653
Operating expenditures	1,109,720	1,084,387	25,333
Total	<u>1,514,733</u>	<u>1,481,747</u>	<u>32,986</u>
Total public works	<u>4,456,426</u>	<u>4,342,983</u>	<u>113,443</u>
<b>Community Development:</b>			
<b>Planning:</b>			
Salaries and employee benefits	518,987	517,488	1,499
Operating expenditures	124,663	104,703	19,960
Capital outlay	44,037	44,036	1
Total	<u>687,687</u>	<u>666,227</u>	<u>21,460</u>
Total community development	<u>687,687</u>	<u>666,227</u>	<u>21,460</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, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Parks and Recreation Programs:</b>			
Salaries and employee benefits	867,490	863,016	4,474
Operating expenditures	665,344	590,107	75,237
Capital outlay	<u>201,200</u>	<u>85,725</u>	<u>115,475</u>
Total	<u>1,734,034</u>	<u>1,538,848</u>	<u>195,186</u>
<b>Stadium:</b>			
Operating expenditures	<u>107,500</u>	<u>116,100</u>	<u>(8,600)</u>
Total	<u>107,500</u>	<u>116,100</u>	<u>(8,600)</u>
Total parks and recreation	<u>1,841,534</u>	<u>1,654,948</u>	<u>186,586</u>
<b>Debt Service:</b>			
Principal retirement	3,507,077	3,502,481	4,596
Interest and fees	<u>3,148,141</u>	<u>3,145,650</u>	<u>2,491</u>
Total debt service	<u>6,655,218</u>	<u>6,648,131</u>	<u>7,087</u>
Total expenditures	<u>35,421,107</u>	<u>34,874,595</u>	<u>546,512</u>
Revenues over (under) expenditures	<u>2,226,396</u>	<u>5,265,261</u>	<u>3,038,865</u>
<b>Other Financing Sources (Uses):</b>			
Transfers out	(3,173,850)	(3,173,850)	-
Appropriated fund balance	<u>947,454</u>	<u>-</u>	<u>(947,454)</u>
Total other financing sources (uses)	<u>(2,226,396)</u>	<u>(3,173,850)</u>	<u>(947,454)</u>
Net change in fund balance	<u>\$ -</u>	<u>2,091,411</u>	<u>\$ 2,091,411</u>
<b>Fund Balance:</b>			
Beginning of year - July 1		17,636,914	
Restatement		<u>24,887</u>	
Beginning of year - July 1 as restated		<u>17,661,801</u>	
End of year - June 30		<u>\$ 19,753,212</u>	

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## **Major Capital Project Fund**

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

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## CITY OF KANNAPOLIS, NORTH CAROLINA

**MAJOR CAPITAL PROJECT FUND - CITY OFFICE/PUBLIC SAFETY BUILDING**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016**

	<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	\$ 60,000	\$ 52,848	\$ 10,217	\$ 63,065
Contributions	6,491	6,491	1	6,492
Total revenues	<u>66,491</u>	<u>59,339</u>	<u>10,218</u>	<u>69,557</u>
<b>Expenditures:</b>				
Contracted services	5,815,473	3,193,100	2,323,341	5,516,441
Furniture and fixtures	1,410,469	-	1,290,141	1,290,141
Capital outlay	26,125,288	18,746,944	7,285,847	26,032,791
Debt service:				
Interest and fees	289,951	289,950	-	289,950
Total expenditures	<u>33,641,181</u>	<u>22,229,994</u>	<u>10,899,329</u>	<u>33,129,323</u>
Revenues over (under) expenditures	<u>(33,574,690)</u>	<u>(22,170,655)</u>	<u>(10,889,111)</u>	<u>(33,059,766)</u>
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	25,219,999	25,220,000	-	25,220,000
Premium on long-term debt	2,303,246	2,303,246	-	2,303,246
Transfers in	6,051,445	6,051,445	-	6,051,445
Total other financing sources (uses)	<u>33,574,690</u>	<u>33,574,691</u>	<u>-</u>	<u>33,574,691</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 11,404,036</u>	<u>\$ (10,889,111)</u>	<u>\$ 514,925</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2016

	<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	\$ 590,709	\$ 271,367	\$ 862,076
Accounts receivable	200,785	-	200,785
Due from other governments	70,049	267,636	337,685
Cash and cash equivalents, restricted	<u>368,146</u>	<u>-</u>	<u>368,146</u>
 Total assets	 <u>\$ 1,229,689</u>	 <u>\$ 539,003</u>	 <u>\$ 1,768,692</u>
 <b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 96,635	\$ 9,137	\$ 105,772
Due to other funds	<u>80,323</u>	<u>200,157</u>	<u>280,480</u>
Total liabilities	<u>176,958</u>	<u>209,294</u>	<u>386,252</u>
 <b>Fund Balances:</b>			
Non-spendable:			
Long-term receivable	187,400	-	187,400
Restricted:			
Stabilization for State statute	83,434	267,636	351,070
Restricted, all other	867,851	43,615	911,466
Committed	-	219,535	219,535
Unassigned	<u>(85,954)</u>	<u>(201,077)</u>	<u>(287,031)</u>
Total fund balances	<u>1,052,731</u>	<u>329,709</u>	<u>1,382,440</u>
 Total liabilities and fund balances	 <u>\$ 1,229,689</u>	 <u>\$ 539,003</u>	 <u>\$ 1,768,692</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, 2016**

	<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	\$ 190,315	\$ -	\$ 190,315
Restricted intergovernmental	452,704	313,918	766,622
Total revenues	<u>643,019</u>	<u>313,918</u>	<u>956,937</u>
<b>Expenditures:</b>			
Economic development	899,457	-	899,457
Contracted services	-	74,288	74,288
Capital outlay	-	644,808	644,808
Total expenditures	<u>899,457</u>	<u>719,096</u>	<u>1,618,553</u>
Revenues over (under) expenditures	<u>(256,438)</u>	<u>(405,178)</u>	<u>(661,616)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	315,200	525,000	840,200
Total other financing sources (uses)	<u>315,200</u>	<u>525,000</u>	<u>840,200</u>
Net change in fund balances	58,762	119,822	178,584
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>993,969</u>	<u>209,887</u>	<u>1,203,856</u>
End of year - June 30	<u>\$ 1,052,731</u>	<u>\$ 329,709</u>	<u>\$ 1,382,440</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, 2016

	<b>Community Development Block Grant</b>	<b>Transit Tax Fund</b>	<b>Total</b>
<b>Assets:</b>			
Cash and investments	\$ -	\$ 590,709	\$ 590,709
Accounts receivable	200,785	-	200,785
Due from other governments	70,049	-	70,049
Restricted cash	<u>368,146</u>	<u>-</u>	<u>368,146</u>
Total assets	<u>\$ 638,980</u>	<u>\$ 590,709</u>	<u>\$ 1,229,689</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 5,631	\$ 91,004	\$ 96,635
Due to other funds	<u>80,323</u>	<u>-</u>	<u>80,323</u>
Total liabilities	<u>85,954</u>	<u>91,004</u>	<u>176,958</u>
<b>Fund Balances:</b>			
Non-spendable:			
Long-term receivable	187,400	-	187,400
Restricted:			
Stabilization for State statute	83,434	-	83,434
Restricted, all other	368,146	499,705	867,851
Unassigned	<u>(85,954)</u>	<u>-</u>	<u>(85,954)</u>
Total fund balances	<u>553,026</u>	<u>499,705</u>	<u>1,052,731</u>
Total liabilities and fund balances	<u>\$ 638,980</u>	<u>\$ 590,709</u>	<u>\$ 1,229,689</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, 2016**

	<b>Community Development Block Grant</b>	<b>Transit Tax Fund</b>	<b>Total</b>
<b>Revenues:</b>			
Other taxes and licenses	\$ -	\$ 190,315	\$ 190,315
Restricted intergovernmental	452,704	-	452,704
Total revenues	<u>452,704</u>	<u>190,315</u>	<u>643,019</u>
<b>Expenditures:</b>			
Current:			
Economic development	<u>605,962</u>	<u>293,495</u>	<u>899,457</u>
Revenues over (under) expenditures	(153,258)	(103,180)	(256,438)
<b>Other Financing Sources (Uses):</b>			
Transfers in (out)	<u>-</u>	<u>315,200</u>	<u>315,200</u>
Net change in fund balances	(153,258)	212,020	58,762
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>706,284</u>	<u>287,685</u>	<u>993,969</u>
End of year - June 30	<u>\$ 553,026</u>	<u>\$ 499,705</u>	<u>\$ 1,052,731</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, 2016

	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 2012	354,220	354,220	-	354,220
CDBG 2013	352,879	352,879	-	352,879
CDBG 2014	325,452	61,971	263,481	325,452
CDBG 2016	326,534	-	82,464	82,464
CDBG 2015 Program Income	-	-	1,060	1,060
2011 HOME Program Grant	124,946	124,947	-	124,947
2013 HOME Program Grant	104,483	40,392	64,091	104,483
2014 HOME Program Grant	125,421	-	41,608	41,608
2016 HOME Program Grant	102,273	-	-	-
2011 Consortium HOME Program Income	96,834	96,834	-	96,834
2015 Consortium HOME Program Income	13,969	13,969	(13,385)	584
Total revenues	<u>4,066,293</u>	<u>3,184,494</u>	<u>439,319</u>	<u>3,623,813</u>
<b>Expenditures:</b>				
CDBG 2006:				
Section 108 loan payments	<u>2,139,282</u>	<u>1,417,848</u>	<u>142,547</u>	<u>1,560,395</u>
Total	<u>2,139,282</u>	<u>1,417,848</u>	<u>142,547</u>	<u>1,560,395</u>
CDBG 2012:				
Administration	70,000	70,000	-	70,000
Public service	45,831	45,831	-	45,831
Section 108 loan payments	71,427	71,427	-	71,427
Urgent Repair Program	96,963	96,963	-	96,963
Demolition	69,999	24,577	45,422	69,999
Total	<u>354,220</u>	<u>308,798</u>	<u>45,422</u>	<u>354,220</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, 2016

	Project Authorization	Actual		Total To Date
		Prior Years	Current Year	
CDBG 2013:				
Administration	70,575	70,575	-	70,575
Park improvements	79,609	79,608	-	79,608
Public service	43,055	43,055	-	43,055
Section 108 loan payments	68,947	68,947	-	68,947
Urgent Repair Program	60,693	60,693	-	60,693
Demolition	30,000	(1,600)	31,563	29,963
Total	352,879	321,278	31,563	352,841
CDBG 2014:				
Administration	65,090	65,090	-	65,090
Infrastructure improvements	103,415	3,640	25,542	29,182
Public service	48,000	48,000	-	48,000
Section 108 loan payments	68,947	-	67,433	67,433
Urgent Repair Program	40,000	22,416	17,584	40,000
Total	325,452	139,146	110,559	249,705
CDBG 2016:				
Administration	65,300	-	65,300	65,300
Infrastructure improvements	70,000	-	-	-
Public service	48,000	-	48,000	48,000
Section 108 loan payments	64,882	-	-	-
Urgent Repair Program	48,352	-	40,288	40,288
Demolition	30,000	-	4,813	4,813
Total	326,534	-	158,401	158,401
2011 HOME Program Grant:				
Administration	15,372	15,372	-	15,372
Construction	50,000	50,000	-	50,000
Transitional housing	136,408	124,123	295	124,418
Downpayment assistance	20,000	5,000	15,000	20,000
Total	221,780	194,495	15,295	209,790

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, 2016

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total To Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
2013 HOME Program Grant:				
Administration	5,915	5,915	-	5,915
Property purchase	18,568	-	-	-
Program rehabilitation	60,000	60,000	-	60,000
Downpayment assistance	20,000	-	5,000	5,000
Total	<u>104,483</u>	<u>65,915</u>	<u>5,000</u>	<u>70,915</u>
2014 HOME Program Grant:				
Administration	7,099	577	4,736	5,313
Program rehabilitation	118,322	16,767	77,756	94,523
Total	<u>125,421</u>	<u>17,344</u>	<u>82,492</u>	<u>99,836</u>
2015 HOME Program Income:				
Program rehabilitation	13,969	-	13,969	13,969
Total	<u>13,969</u>	<u>-</u>	<u>13,969</u>	<u>13,969</u>
2016 HOME Program Grant:				
Administration	5,789	-	714	714
Senior housing	96,484	-	-	-
Total	<u>102,273</u>	<u>-</u>	<u>714</u>	<u>714</u>
Total expenditures	<u>4,066,293</u>	<u>2,464,824</u>	<u>605,962</u>	<u>3,070,786</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 719,670</u>	(166,643)	<u>\$ 553,027</u>

**Reconciliation from Budgetary Basis to  
Modified Accrual Basis:**

Current year loan repayments		<u>13,385</u>
Net change in fund balance		<u>\$ (153,258)</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, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Other taxes and licenses:			
Vehicle license tax	\$ 163,000	\$ 190,315	\$ 27,315
Total revenues	<u>163,000</u>	<u>190,315</u>	<u>27,315</u>
<b>Expenditures:</b>			
Contracted services	<u>478,200</u>	<u>293,495</u>	<u>184,705</u>
Revenues over (under) expenditures	(315,200)	(103,180)	212,020
<b>Other Financing Sources (Uses):</b>			
Transfers in (out)	<u>315,200</u>	<u>315,200</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 212,020</u>	<u>\$ 212,020</u>

## 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 seven Capital Project Funds.

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

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

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

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

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

***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.

***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**

**NONMAJOR CAPITAL PROJECT FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2016**

	Irish Buffalo Creek Greenway	Pine Street Assisted Living	Oak Avenue Sidewalk	Little Texas Road Sidewalk	Glen Afton to Goodman Road Connection	Village Park Phase 3 Improvements	Fire Station Improvements	Total
<b>Assets:</b>								
Cash and investments	\$ 43,615	\$ -	\$ 5,836	\$ 45,828	\$ -	\$ 151,088	\$ 25,000	\$ 271,367
Due from other governments	-	-	67,331	-	199,957	348	-	267,636
<b>Total assets</b>	<b>\$ 43,615</b>	<b>\$ -</b>	<b>\$ 73,167</b>	<b>\$ 45,828</b>	<b>\$ 199,957</b>	<b>\$ 151,436</b>	<b>\$ 25,000</b>	<b>\$ 539,003</b>
<b>Liabilities and Fund Balances:</b>								
<b>Liabilities:</b>								
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 572	\$ 1,553	\$ 7,012	\$ 9,137
Due to other funds	-	-	-	-	200,157	-	-	200,157
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200,729</b>	<b>1,553</b>	<b>7,012</b>	<b>209,294</b>
<b>Fund Balances:</b>								
Restricted:								
Stabilization for State statute	-	-	67,331	-	199,957	348	-	267,636
Restricted, all other	43,615	-	-	-	-	-	-	43,615
Committed	-	-	5,836	45,828	-	149,883	17,988	219,535
Unassigned	-	-	-	-	(200,729)	(348)	-	(201,077)
<b>Total fund balances</b>	<b>43,615</b>	<b>-</b>	<b>73,167</b>	<b>45,828</b>	<b>(772)</b>	<b>149,883</b>	<b>17,988</b>	<b>329,709</b>
<b>Total liabilities and fund balances</b>	<b>\$ 43,615</b>	<b>\$ -</b>	<b>\$ 73,167</b>	<b>\$ 45,828</b>	<b>\$ 199,957</b>	<b>\$ 151,436</b>	<b>\$ 25,000</b>	<b>\$ 539,003</b>

**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, 2016**

	Irish Buffalo Creek Greenway	Pine Street Assisted Living	Oak Avenue Sidewalk	Little Texas Road Sidewalk	Glen Afton to Goodman Road Connection	Village Park Phase 3 Improvements	Fire Station Improvements	Total
<b>Revenues:</b>								
Restricted intergovernmental	\$ -	\$ 4,259	\$ 15,563	\$ 3,191	\$ 290,905	\$ -	\$ -	\$ 313,918
Total revenues	-	4,259	15,563	3,191	290,905	-	-	313,918
<b>Expenditures:</b>								
<b>Current:</b>								
Contracted services	3,000	4,259	-	-	-	60,017	7,012	74,288
Capital outlay	-	-	19,454	8,363	326,891	290,100	-	644,808
Total expenditures	3,000	4,259	19,454	8,363	326,891	350,117	7,012	719,096
Revenues over (under) expenditures	(3,000)	-	(3,891)	(5,172)	(35,986)	(350,117)	(7,012)	(405,178)
<b>Other Financing Sources (Uses):</b>								
Transfers in	-	-	-	-	-	500,000	25,000	525,000
Net change in fund balances	(3,000)	-	(3,891)	(5,172)	(35,986)	149,883	17,988	119,822
<b>Fund Balances:</b>								
Beginning of year - July 1	46,615	-	77,058	51,000	35,214	-	-	209,887
End of year - June 30	\$ 43,615	\$ -	\$ 73,167	\$ 45,828	\$ (772)	\$ 149,883	\$ 17,988	\$ 329,709



## 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, 2016**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
<b>Revenues:</b>				
Proceeds from grants	\$ 2,136,000	\$ -	\$ -	\$ -
Contributions	129,024	96,014	-	96,014
Total revenues	<u>2,265,024</u>	<u>96,014</u>	<u>-</u>	<u>96,014</u>
<b>Expenditures:</b>				
Capital outlay	2,525,476	-	-	-
Contract engineering	144,524	64,899	3,000	67,899
Total expenditures	<u>2,670,000</u>	<u>64,899</u>	<u>3,000</u>	<u>67,899</u>
Revenues over (under) expenditures	<u>(404,976)</u>	<u>31,115</u>	<u>(3,000)</u>	<u>28,115</u>
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	389,476	-	-	-
Transfers in	15,500	15,500	-	15,500
Total other financing sources (uses)	<u>404,976</u>	<u>15,500</u>	<u>-</u>	<u>15,500</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 46,615</u>	<u>\$ (3,000)</u>	<u>\$ 43,615</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

**CAPITAL PROJECT FUND - PINE STREET ASSISTED LIVING  
 SCHEDULE OF REVENUES AND EXPENDITURES -  
 BUDGET AND ACTUAL  
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016**

	<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	\$ 2,819,491	\$ 2,815,232	\$ 4,259	\$ 2,819,491
Total revenues	<u>2,819,491</u>	<u>2,815,232</u>	<u>4,259</u>	<u>2,819,491</u>
<b>Expenditures:</b>				
Contracted services	<u>2,819,491</u>	<u>2,815,232</u>	<u>4,259</u>	<u>2,819,491</u>
Total expenditures	<u>2,819,491</u>	<u>2,815,232</u>	<u>4,259</u>	<u>2,819,491</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2016**

	<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	\$ 880,000	\$ 51,768	\$ 15,563	\$ 67,331
Total revenues	<u>880,000</u>	<u>51,768</u>	<u>15,563</u>	<u>67,331</u>
<b>Expenditures:</b>				
Capital outlay	<u>1,100,000</u>	<u>64,710</u>	<u>19,454</u>	<u>84,164</u>
Total expenditures	<u>1,100,000</u>	<u>64,710</u>	<u>19,454</u>	<u>84,164</u>
Revenues over (under) expenditures	(220,000)	(12,942)	(3,891)	(16,833)
<b>Other Financing Sources (Uses):</b>				
Transfers in	<u>220,000</u>	<u>90,000</u>	<u>-</u>	<u>90,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 77,058</u>	<u>\$ (3,891)</u>	<u>\$ 73,167</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, 2016**

	<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	\$ 153,000	\$ -	\$ 3,191	\$ 3,191
Total revenues	<u>153,000</u>	<u>-</u>	<u>3,191</u>	<u>3,191</u>
<b>Expenditures:</b>				
Capital outlay	<u>204,000</u>	<u>-</u>	<u>8,363</u>	<u>8,363</u>
Total expenditures	<u>204,000</u>	<u>-</u>	<u>8,363</u>	<u>8,363</u>
Revenues over (under) expenditures	(51,000)	-	(5,172)	(5,172)
<b>Other Financing Sources (Uses):</b>				
Transfers in	<u>51,000</u>	<u>51,000</u>	<u>-</u>	<u>51,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 51,000</u>	<u>\$ (5,172)</u>	<u>\$ 45,828</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

**CAPITAL PROJECT FUND - GLEN AFTON TO GOODMAN ROAD CONNECTION**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual</b>	
			<b>Current Year</b>	<b>Total to Date</b>
<b>Revenues:</b>				
Proceeds from grants	\$ 453,300	\$ 41,275	\$ 290,905	\$ 332,180
Total revenues	<u>453,300</u>	<u>41,275</u>	<u>290,905</u>	<u>332,180</u>
<b>Expenditures:</b>				
Capital outlay	493,100	45,861	326,891	372,752
Total expenditures	<u>493,100</u>	<u>45,861</u>	<u>326,891</u>	<u>372,752</u>
Revenues over (under) expenditures	(39,800)	(4,586)	(35,986)	(40,572)
<b>Other Financing Sources (Uses):</b>				
Transfers in	<u>39,800</u>	<u>39,800</u>	<u>-</u>	<u>39,800</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 35,214</u>	<u>\$ (35,986)</u>	<u>\$ (772)</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, 2016**

	<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	\$ 78,000	\$ -	\$ 60,017	\$ 60,017
Capital outlay	<u>1,522,000</u>	<u>-</u>	<u>290,100</u>	<u>290,100</u>
Total expenditures	<u>1,600,000</u>	<u>-</u>	<u>350,117</u>	<u>350,117</u>
Revenues over (under) expenditures	<u>(1,600,000)</u>	<u>-</u>	<u>(350,117)</u>	<u>(350,117)</u>
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	1,100,000	-	-	-
Transfers in	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>500,000</u>
Total other financing sources (uses)	<u>1,600,000</u>	<u>-</u>	<u>500,000</u>	<u>500,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,883</u>	<u>\$ 149,883</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

## CAPITAL PROJECT FUND - FIRE STATION IMPROVEMENTS

## SCHEDULE OF REVENUES AND EXPENDITURES -

## BUDGET AND ACTUAL

## FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

	<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	400,000	-	7,012	7,012
Capital outlay	<u>4,700,000</u>	-	-	-
Total expenditures	<u>5,100,000</u>	-	<u>7,012</u>	<u>7,012</u>
Revenues over (under) expenditures	(5,100,000)	-	(7,012)	(7,012)
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	5,075,000	-	-	-
Transfers in	<u>25,000</u>	-	<u>25,000</u>	<u>25,000</u>
Total other financing sources (uses)	<u>5,100,000</u>	-	<u>25,000</u>	<u>25,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,988</u>	<u>\$ 17,988</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 five separate Water and Sewer Capital Project Funds for accounting purposes, listed as follows:

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

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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, 2016

	<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	\$ 14,700,000	\$ 14,399,114	\$ (300,886)
Water and sewer taps	670,000	1,465,679	795,679
Penalties	375,000	410,663	35,663
Other	<u>22,000</u>	<u>39,487</u>	<u>17,487</u>
Total operating revenues	<u>15,767,000</u>	<u>16,314,943</u>	<u>547,943</u>
<b>Non-Operating Revenues:</b>			
Interest on investments	<u>3,500</u>	<u>9,060</u>	<u>5,560</u>
Total non-operating revenues	<u>3,500</u>	<u>9,060</u>	<u>5,560</u>
Total revenues	<u>15,770,500</u>	<u>16,324,003</u>	<u>553,503</u>
<b>Expenditures:</b>			
<b>Administration:</b>			
Salaries and employee benefits	517,144	509,276	7,868
Operating expenditures	227,500	205,988	21,512
Repairs and maintenance	<u>1,000</u>	<u>135</u>	<u>865</u>
Total	<u>745,644</u>	<u>715,399</u>	<u>30,245</u>
<b>Distribution:</b>			
Salaries and employee benefits	1,586,160	1,578,800	7,360
Operating expenditures	797,955	786,178	11,777
Repairs and maintenance	286,975	285,686	1,289
Capital outlay	<u>437,229</u>	<u>436,653</u>	<u>576</u>
Total	<u>3,108,319</u>	<u>3,087,317</u>	<u>21,002</u>
<b>Filter Plant:</b>			
Salaries and employee benefits	657,020	650,981	6,039
Operating expenditures	1,431,859	1,371,384	60,475
Repairs and maintenance	403,550	308,033	95,517
Capital outlay	<u>115,700</u>	<u>120,407</u>	<u>(4,707)</u>
Total	<u>2,608,129</u>	<u>2,450,805</u>	<u>157,324</u>
<b>General Services</b>	<u>1,466,110</u>	<u>1,466,110</u>	<u>-</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Sewage Treatment</b>	3,079,580	3,012,560	67,020
<b>Debt Service:</b>			
Principal	2,641,000	2,340,959	300,041
Interest and fees	1,595,590	1,240,809	354,781
Total debt service	<u>4,236,590</u>	<u>3,581,768</u>	<u>654,822</u>
Total expenditures	<u>15,244,372</u>	<u>14,313,959</u>	<u>930,413</u>
Revenues over (under) expenditures	<u>526,128</u>	<u>2,010,044</u>	<u>1,483,916</u>
<b>Other Financing Sources (Uses):</b>			
Transfers out	(725,000)	(725,000)	-
Appropriated fund balance	198,872	-	(198,872)
Total other financing sources (uses)	<u>(526,128)</u>	<u>(725,000)</u>	<u>(198,872)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	1,285,044	<u>\$ 1,285,044</u>
<b>Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:</b>			
Depreciation and amortization		(2,324,895)	
Capital outlay		557,059	
Payment of debt principal		2,340,959	
Change in accrued interest		34,982	
Change in other post-employment benefits		(431,422)	
Change in compensated absences		(11,314)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		(20,366)	
Deferred inflows of resources for contributions made to pension plan in current fiscal year		537,211	
Change in net pension asset		(264,722)	
Change in net pension liability		(190,485)	
Interest from capital projects		3,035	
Contributions from developer		1,204,690	
Loss on asset disposal		<u>(16,976)</u>	
Change in net position		<u>\$ 2,702,800</u>	

## CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - SHILOH CHURCH ROAD EXTENSION FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES -  
 BUDGET AND ACTUAL (NON-GAAP)  
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

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

## CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - REVENUE BONDS 2014 FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES -  
 BUDGET AND ACTUAL (NON-GAAP)  
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
<b>Revenues:</b>				
Interest income	\$ -	\$ 62,081	\$ 3,035	\$ 65,116
Total revenues	-	62,081	3,035	65,116
<b>Expenditures:</b>				
Capital outlay:				
Albemarle water line	11,111,545	9,579,094	291,446	9,870,540
Meter exchange project	6,138,228	6,086,758	-	6,086,758
Water intake and clear well	1,016,388	592,937	288,990	881,927
Irish Buffalo Creek sewer project	741,080	48,122	80,347	128,469
Debt issuance costs	132,319	82,130	7,610	89,740
Total expenditures	19,139,560	16,389,041	668,393	17,057,434
Revenues over (under) expenditures	(19,139,560)	(16,326,960)	(665,358)	(16,992,318)
<b>Other Financing Sources (Uses):</b>				
Transfers in	539,560	204,910	-	204,910
Debt issued	18,600,000	18,245,000	-	18,245,000
Total other financing sources (uses)	19,139,560	18,449,910	-	18,449,910
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 2,122,950	\$ (665,358)	\$ 1,457,592

## 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, 2016

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
<b>Expenditures:</b>				
Capital outlay	\$ 3,000,000	\$ 104,235	\$ 108,447	\$ 212,682
Total expenditures	<u>3,000,000</u>	<u>104,235</u>	<u>108,447</u>	<u>212,682</u>
Revenues over (under) expenditures	(3,000,000)	(104,235)	(108,447)	(212,682)
<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>\$ (104,235)</u>	<u>\$ (108,447)</u>	<u>\$ (212,682)</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, 2016

	<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	\$ 4,000,000	\$ -	\$ 38,301	\$ 38,301
Total expenditures	<u>4,000,000</u>	<u>-</u>	<u>38,301</u>	<u>38,301</u>
Revenues over (under) expenditures	(4,000,000)	-	(38,301)	(38,301)
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	<u>4,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (38,301)</u>	<u>\$ (38,301)</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, 2016

	<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	\$ 8,000,000	\$ -	\$ -	\$ -
Total expenditures	<u>8,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	(8,000,000)	-	-	-
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	<u>8,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

**STORMWATER FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services:			
Sales and services	\$ 2,025,000	\$ 2,449,156	\$ 424,156
Total revenues	<u>2,025,000</u>	<u>2,449,156</u>	<u>424,156</u>
<b>Expenditures:</b>			
Salaries and employee benefits	653,160	649,322	3,838
Operating expenditures	466,140	453,214	12,926
General services	213,000	213,000	-
Total	<u>1,332,300</u>	<u>1,315,536</u>	<u>16,764</u>
<b>Debt Service:</b>			
Principal	610,500	610,300	200
Interest	82,200	82,186	14
Total	<u>692,700</u>	<u>692,486</u>	<u>214</u>
Total expenditures	<u>2,025,000</u>	<u>2,008,022</u>	<u>16,978</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>441,134</u>	<u>\$ 441,134</u>
<b>Reconciliation from Budgetary Basis (Modified Accrual)</b>			
<b>to Full Accrual Basis:</b>			
Reconciling items:			
Depreciation and amortization		(191,931)	
Change in interest accrued		435	
Change in other post-employment benefits		(112,352)	
Change in compensated absences		(3,083)	
Change in deferred outflows of resources for contributions made to pension plan in current fiscal year		(8,222)	
Change in pension expense		29,474	
Payment of debt principal		<u>610,300</u>	
Total		<u>324,621</u>	
Change in net position		<u>\$ 765,755</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, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services:			
Sales and services	\$ 1,778,370	\$ 1,873,159	\$ 94,789
Solid waste disposal fee	28,500	28,795	57,295
Miscellaneous revenue	-	30,305	30,305
Total revenues	<u>1,806,870</u>	<u>1,932,259</u>	<u>182,389</u>
<b>Expenditures:</b>			
Salaries and employee benefits	46,681	46,591	90
Operating expenditures	116,155	110,639	5,516
Contracted services	<u>3,536,331</u>	<u>3,505,912</u>	<u>30,419</u>
Total	<u>3,699,167</u>	<u>3,663,142</u>	<u>36,025</u>
<b>Debt Service:</b>			
Principal	173,513	173,513	-
Interest	<u>2,415</u>	<u>2,414</u>	<u>1</u>
Total	<u>175,928</u>	<u>175,927</u>	<u>1</u>
Total expenditures	<u>3,875,095</u>	<u>3,839,069</u>	<u>36,026</u>
Revenues over (under) expenditures	<u>(2,068,225)</u>	<u>(1,906,810)</u>	<u>161,415</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	2,034,825	2,034,825	-
Appropriated fund balance	<u>33,400</u>	<u>-</u>	<u>(33,400)</u>
Total other financing sources (uses)	<u>2,068,225</u>	<u>2,034,825</u>	<u>(33,400)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>128,015</u>	<u>\$ 128,015</u>
<b>Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:</b>			
Reconciling items:			
Other post-employment benefits		25,228	
Change in deferred outflows of resources for contributions made to pension plan in current fiscal year		(5,607)	
Change in pension expense		14,104	
Payment of debt principal		<u>173,513</u>	
Total		<u>207,238</u>	
Change in net position		<u>\$ 335,253</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, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services:			
Sales and services	\$ 820,000	\$ 720,217	\$ (99,783)
Investment earnings	-	490	490
Miscellaneous revenue	<u>29,000</u>	<u>43,830</u>	<u>72,830</u>
Total revenues	<u>849,000</u>	<u>764,537</u>	<u>(26,463)</u>
<b>Expenditures:</b>			
Operating expenditures	621,313	513,802	107,511
Contracted services	480,025	432,691	47,334
Capital outlay	<u>10,840,000</u>	<u>9,702,285</u>	<u>1,137,715</u>
Total	<u>11,941,338</u>	<u>10,648,778</u>	<u>1,292,560</u>
<b>Debt Service:</b>			
Principal	372,787	-	372,787
Interest and fees	<u>558,700</u>	<u>635,776</u>	<u>(77,076)</u>
Total	<u>931,487</u>	<u>635,776</u>	<u>295,711</u>
Total expenditures	<u>12,872,825</u>	<u>11,284,554</u>	<u>1,588,271</u>
Revenues over (under) expenditures	<u>(12,023,825)</u>	<u>(10,520,017)</u>	<u>1,503,808</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	1,023,825	1,023,825	-
Debt issued	<u>11,000,000</u>	<u>11,000,000</u>	<u>-</u>
Total other financing sources (uses)	<u>12,023,825</u>	<u>12,023,825</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>1,503,808</u>	<u>\$ 1,503,808</u>
<b>Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:</b>			
Reconciling items:			
Capital outlay		9,702,285	
Depreciation and amortization		(47,976)	
Debt issued		<u>(11,000,000)</u>	
Total		<u>(1,345,691)</u>	
Change in net position		<u>\$ 158,117</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, 2016

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2015</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2016</u>
2015 - 2016	\$ -	\$ 23,610,175	\$ 23,193,274	\$ 416,901
2014 - 2015	484,588	-	325,528	159,060
2013 - 2014	204,752	-	81,880	122,872
2012 - 2013	123,705	-	36,999	86,706
2011 - 2012	104,989	-	40,402	64,587
2010 - 2011	92,789	-	34,620	58,169
2009 - 2010	49,382	-	6,605	42,777
2008 - 2009	27,847	-	3,958	23,889
2007 - 2008	19,654	-	1,300	18,354
2006 - 2007	15,437	-	427	15,010
2005 - 2006	19,473	-	19,473	-
Total	<u>\$ 1,142,616</u>	<u>\$ 23,610,175</u>	<u>\$ 23,744,466</u>	1,008,325
Less: Allowance for uncollectible accounts				<u>472,581</u>
Ad valorem taxes receivable - net				<u>\$ 535,744</u>
<b>Reconciliation with Revenues:</b>				
Ad valorem taxes - General Fund				\$ 23,808,805
Reconciling items:				
Penalties and interest				(168,873)
Discounts				18,014
Taxes written off - State statute				19,473
Miscellaneous adjustment				<u>67,047</u>
Total collections and credits				<u>\$ 23,744,466</u>

## CITY OF KANNAPOLIS, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY  
FOR THE YEAR ENDED JUNE 30, 2016

	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	\$3,728,368,489	\$ 0.6300	\$ 23,488,722	\$21,507,617	\$1,981,105
Penalties	-		13,536	13,536	-
Total	3,728,368,489		23,502,258	21,521,153	1,981,105
<b>Discoveries:</b>					
Current year taxes	6,760,514	0.6300	42,591	42,282	309
Prior year taxes	14,986,860	0.6000	89,921	89,921	-
Penalties	-		4,939	4,939	-
Total	21,747,374		137,451	137,142	309
<b>Releases:</b>					
Property taxed at current year's rate	(4,453,867)	0.6300	(28,059)	(28,059)	-
Property taxed at prior year's rate	(245,863)	0.6000	(1,475)	(1,475)	-
Total	(4,699,730)		(29,534)	(29,534)	-
Total property valuation	\$ 3,745,416,133				
<b>Net Levy</b>			23,610,175	21,628,761	1,981,414
Less uncollected taxes at June 30, 2016			416,901	416,841	60
<b>Current Year's Taxes Collected</b>			\$ 23,193,274	\$ 21,211,920	\$ 1,981,354
<b>Percent Current Year Collected</b>			<u>98.23%</u>	<u>98.07%</u>	<u>100.00%</u>



**CITY OF KANNAPOLIS, NORTH CAROLINA**

**ANALYSIS OF CURRENT TAX LEVY  
SECONDARY MARKET DISCLOSURES  
FOR THE YEAR ENDED JUNE 30, 2016**

**Assessed Valuation:**

Assessment Ratio (1)	<u>100.00%</u>
Real property	\$3,193,371,079
Personal property	470,988,564
Public service companies (2)	<u>81,056,490</u>
Total assessed valuation	<u>\$ 3,745,416,133</u>
Tax Rate per \$100	<u>0.6300</u>
Levy (includes discoveries, releases, penalties, and abatements)	<u>\$ 23,610,175</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, 2016

<u>Business</u>	<u>Type of Enterprise</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Castle & Cooke NCRC	Real Estate	\$ 203,761,020	5.18%
Castle & Cooke LLC	Real Estate	63,116,120	1.60%
Atlantic American Properties/ Club at Irish Creek, LLC	Real Estate	45,596,920	1.16%
Trinity of Cabarrus LTD /Shoe Show	Shoe Distribution	36,821,410	0.94%
Duke Energy Corp	Utility	34,062,325	0.87%
Wachovia Development Corp	Warehousing	33,779,270	0.86%
Afton Ridge Joint Venture LLC/ CK Afton Ridge Shopping Center	Real Estate	31,025,180	0.79%
Integra Springs LLC	Real Estate	26,222,780	0.67%
The Grand in Kannapolis LLC	Real Estate	19,472,820	0.50%
Public Service Company of NC, Inc.	Utility	<u>15,636,471</u>	<u>0.40%</u>
Total		<u>\$ 509,494,316</u>	<u>12.97%</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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
Net investment in capital assets	\$ 111,062	\$ 112,059	\$ 111,834	\$ 112,112	\$ 103,739	\$ 104,875	\$ 105,486	\$ 110,812	\$ 115,035	\$ 110,342
Restricted	100	638	359	650	3,555	3,643	3,242	9,131	3,909	3,626
Unrestricted	8,240	8,821	7,108	6,242	1,424	(1,135)	640	(6,850)	(2,942)	1,750
Total governmental activities net position	\$ 119,402	\$ 121,518	\$ 119,301	\$ 119,004	\$ 108,718	\$ 107,383	\$ 109,368	\$ 113,093	\$ 116,003	\$ 115,718
Business-type activities										
Net investment in capital assets	\$ 39,611	\$ 44,953	\$ 46,667	\$ 47,302	\$ 54,488	\$ 57,456	\$ 58,647	\$ 60,310	\$ 61,843	\$ 62,887
Restricted	-	-	-	738	3,791	-	-	-	-	-
Unrestricted	6,104	7,486	6,751	8,151	3,018	6,252	4,917	6,551	6,564	9,331
Total business-type activities net position	\$ 45,715	\$ 52,439	\$ 53,418	\$ 56,191	\$ 61,297	\$ 63,708	\$ 63,564	\$ 66,861	\$ 66,304	\$ 72,218
Primary government										
Net investment in capital assets	\$ 150,673	\$ 157,012	\$ 158,501	\$ 159,414	\$ 158,227	\$ 162,331	\$ 164,133	\$ 171,122	\$ 176,879	\$ 173,229
Restricted	100	638	359	1,388	7,346	3,643	3,242	9,131	3,909	3,626
Unrestricted	14,344	16,307	13,859	14,393	4,442	5,117	5,557	(299)	3,621	11,081
Total primary government net position	\$ 165,117	\$ 173,957	\$ 172,719	\$ 175,195	\$ 170,015	\$ 171,091	\$ 172,932	\$ 179,954	\$ 184,410	\$ 187,936

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

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Expenses</b>										
Governmental activities:										
General government	\$ 4,065	\$ 5,481	\$ 5,217	\$ 6,573	\$ 2,876	\$ 8,103	\$ 7,777	\$ 9,674	\$ 5,292	\$ 744
Public safety	9,771	8,057	10,107	11,275	13,398	12,522	15,028	15,708	14,412	18,549
Public works	4,232	2,918	8,604	6,943	8,711	7,668	5,492	5,639	5,037	10,485
Community development	5,009	8,978	8,453	4,359	14,578	1,533	1,754	1,760	1,829	1,420
Parks and recreation	1,278	1,326	1,268	1,545	1,941	1,931	2,172	2,101	2,365	2,479
Interest on long-term debt	327	491	607	551	1,868	2,276	2,283	2,205	3,026	3,110
Total governmental activities	24,682	27,251	34,256	31,246	43,372	34,033	34,506	37,087	31,962	36,787
Business-type activities:										
Water and sewer	11,132	11,916	11,711	11,260	11,185	13,045	11,427	12,569	12,363	14,130
Stormwater	97	1,011	1,485	1,405	1,270	1,436	1,691	1,545	1,552	1,684
Environmental services	-	-	-	-	-	427	3,314	3,355	3,523	3,632
Downtown	-	-	-	-	-	-	-	-	-	1,630
Total business-type activities	11,229	12,927	13,196	12,665	12,455	14,908	16,432	17,469	17,437	21,076
Total primary government expenses	\$ 35,911	\$ 40,178	\$ 47,452	\$ 43,911	\$ 55,827	\$ 48,941	\$ 50,938	\$ 54,556	\$ 49,400	\$ 57,863
<b>Program Revenues</b>										
Governmental activities										
Charges for services:										
General government	\$ 523	\$ 1,669	\$ 1,157	\$ 1,183	\$ 2,310	\$ 2,422	\$ 2,118	\$ 87	\$ 62	\$ 94
Public safety	85	139	124	152	135	135	118	133	102	246
Public works	93	189	56	8	98	44	25	13	62	144
Community development	832	113	184	110	59	33	136	291	99	118
Parks and recreation	138	258	249	260	258	275	279	256	257	132
Interest on long-term debt	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions:										
General government	90	243	95	33	204	27	65	933	769	829
Public safety	12	135	88	28	602	29	970	791	212	-
Public works	1,266	23	-	-	-	-	-	-	-	-
Community development	-	1,250	200	-	-	-	-	-	104	13
Parks and recreation	16	-	8	-	-	-	-	-	-	67
Capital grants and contributions:										
General government	-	258	1,206	590	366	3	1,536	5,499	1,520	1,523
Public safety	-	202	18	128	176	382	299	2,722	-	-
Public works	2,475	1,557	1,935	1,508	1,481	1,731	1,468	1,264	1,572	1,590
Community development	573	1,054	1,004	345	958	445	358	506	686	-
Parks and recreation	408	426	777	32	-	-	-	-	-	457
Total governmental activities program revenues	6,511	7,516	7,101	4,377	6,647	5,526	7,372	12,495	5,445	5,213

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CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 2 (Continued)

CHANGES IN NET POSITION

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(Dollars in Thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Program Revenues (Continued):</b>										
Business-type activities										
Charges for services:										
Water and sewer	13,463	14,003	12,050	12,146	13,135	13,627	13,661	14,573	13,708	16,315
Stormwater	218	1,441	1,389	1,398	1,472	1,504	1,671	1,699	1,773	2,449
Environmental services	-	-	-	-	35	631	1,264	1,274	1,609	1,932
Downtown										764
Capital grants and contributions:										
Water and sewer	5,451	4,014	609	2,084	2,775	1,137	237	1,655	1,330	1,205
Environmental services	-	-	-	-	-	67	3	-	-	-
Total business-type activities program revenues	19,132	19,458	14,048	15,628	17,417	16,966	16,836	19,201	18,420	22,665
Total primary government program revenues	\$ 25,643	\$ 26,974	\$ 21,149	\$ 20,005	\$ 24,064	\$ 22,492	\$ 24,208	\$ 31,696	\$ 23,865	\$ 27,878
<b>Net (Expense)/Revenue</b>										
Governmental activities	\$ (18,170)	\$ (19,735)	\$ (27,154)	\$ (26,869)	\$ (36,725)	\$ (28,505)	\$ (27,132)	\$ (24,592)	\$ (26,517)	\$ (31,574)
Business-type activities	7,903	6,531	851	2,963	4,962	2,058	401	1,732	983	1,589
Total primary government net (expense)/revenue	\$ (10,267)	\$ (13,204)	\$ (26,303)	\$ (23,906)	\$ (31,763)	\$ (26,447)	\$ (26,731)	\$ (22,860)	\$ (25,534)	\$ (29,985)
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Taxes:										
Ad valorem taxes	\$ 12,011	\$ 13,213	\$ 17,165	\$ 18,252	\$ 18,379	\$ 18,585	\$ 19,274	\$ 19,935	\$ 21,586	\$ 23,620
Sales tax	5,221	5,412	4,979	5,309	5,218	5,698	6,212	6,486	7,341	8,168
Other taxes and licenses	530	711	701	797	752	786	944	1,189	946	758
Franchise tax	1,311	1,576	1,724	1,779	1,830	1,825	1,840	1,906	2,476	2,749
Unrestricted intergovernmental revenues	543	502	209	69	228	515	186	195	209	195
Investment earnings	399	366	76	35	32	78	113	125	193	204
Gain on sale of capital assets	2,568	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Transfers	9	68	83	331	-	(316)	548	(1,520)	(1,100)	(2,360)
Total general revenues and transfers	22,592	21,848	24,937	26,572	26,439	27,171	29,117	28,316	31,651	33,334
Business-type activities:										
Investment earnings	278	261	211	140	144	36	3	45	20	13
Transfers	(9)	(68)	(83)	(331)	-	316	(548)	1,520	1,100	2,360
Total business-type activities	\$ 269	\$ 193	\$ 128	\$ (191)	\$ 144	\$ 352	\$ (545)	\$ 1,565	\$ 1,120	\$ 2,373
<b>Change in Net Position</b>										
Governmental activities	\$ 4,422	\$ 2,113	\$ (2,217)	\$ (297)	\$ (10,286)	\$ (1,334)	\$ 1,985	\$ 3,724	\$ 5,135	\$ 1,760
Business-type activities	8,172	6,724	979	2,772	5,106	2,410	(144)	3,297	2,103	3,962
Total primary government	\$ 12,594	\$ 8,837	\$ (1,238)	\$ 2,475	\$ (5,180)	\$ 1,076	\$ 1,841	\$ 7,021	\$ 7,238	\$ 5,722

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 3

FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Dollars in Thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund:										
Reserved	\$ 2,075	\$ 3,099	\$ 1,905	-	-	-	-	-	-	-
Unreserved	4,193	3,353	3,730	-	-	-	-	-	-	-
Nonspendable	-	-	-	403	453	35	50	53	65	220
Committed	-	-	-	-	-	-	-	-	-	46
Restricted	-	-	-	2,100	2,990	2,518	2,285	11,013	7,712	7,471
Unassigned	-	-	-	3,874	2,677	4,135	6,706	3,069	9,860	12,016
Total General Fund	\$ 6,268	\$ 6,452	\$ 5,635	\$ 6,377	\$ 6,120	\$ 6,688	\$ 9,041	\$ 14,135	\$ 17,637	\$ 19,753
NCRC Project Development										
Financing 2010 Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	21,431	11,336	5,692	-	-	-
Total NCRC Financing 2010 Fund	\$ -	\$ -	\$ -	\$ -	\$ 21,431	\$ 11,336	\$ 5,692	\$ -	\$ -	\$ -
Pine Street Assisted Living Facility										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,722	\$ -	\$ -
Unassigned	-	-	-	-	-	-	-	(2,724)	-	-
Total Pine Street Assisted Living Facility	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2)	\$ -	\$ -
City Office/Public Safety Building										
Unassigned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,802)	\$ -
Restricted	-	-	-	-	-	-	-	-	13,206	515
Total City Office/Public Safety Building	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,404	\$ 515
All Other Governmental Funds										
Reserved	\$ 216	\$ 73	\$ 275	-	-	-	-	-	-	-
Unreserved report in:										
Special revenue funds	1,625	1,496	1,597	-	-	-	-	-	-	-
Capital project funds	1,366	3,986	1,054	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	-	187
Restricted	-	-	-	1,999	1,036	1,124	954	5,321	1,175	1,262
Committed	-	-	-	-	1,250	308	3,680	93	214	218
Unassigned	-	-	-	-	-	-	-	-	(185)	(285)
Assigned	-	-	-	-	(396)	(224)	(29)	(29)	-	-
Total all other governmental funds	\$ 3,207	\$ 5,555	\$ 2,926	\$ 1,999	\$ 1,890	\$ 1,208	\$ 4,605	\$ 5,385	\$ 1,204	\$ 1,382



## CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Revenues:</b>										
Ad valorem taxes	\$12,121	\$13,273	\$17,589	\$17,907	\$18,235	\$18,600	\$19,032	\$ 20,243	\$ 21,728	\$ 23,809
Other taxes and licenses	5,751	6,124	5,680	6,106	5,971	6,484	7,156	7,675	8,287	8,926
Unrestricted intergovernmental revenues	1,854	2,078	1,933	1,848	2,058	2,340	2,028	2,100	2,685	2,945
Restricted intergovernmental revenues	2,439	3,874	3,676	2,322	3,635	2,129	4,247	6,784	3,976	3,570
Sales and services	1,418	1,162	1,306	1,195	912	2,101	1,767	780	594	745
Investment earnings	399	366	75	35	32	78	113	125	193	204
Miscellaneous	1,048	2,479	739	1,254	2,038	808	909	933	887	908
<b>Total revenues</b>	<b>25,030</b>	<b>29,356</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>Expenditures:</b>										
General Government	4,145	4,491	4,933	6,579	7,399	7,141	8,358	6,534	5,129	6,122
Public safety	9,637	10,022	11,608	10,949	11,988	11,676	13,865	13,461	15,310	15,440
Public works	5,704	6,112	6,203	5,337	6,489	5,831	3,088	3,449	4,022	4,343
Community development	617	711	778	731	731	1,679	1,702	1,760	1,829	1,375
Parks and recreation	1,235	1,326	1,502	1,340	1,444	4,474	1,549	1,665	1,829	1,655
Nondepartmental	-	-	-	-	-	-	-	-	-	-
Capital Outlay	7,397	10,364	7,913	3,808	13,947	10,294	3,527	4,764	21,245	11,618
Debt service:										
Principal	2,738	2,346	3,049	3,206	2,456	2,405	8,803	3,050	2,852	3,693
Interest and fees	378	391	626	574	1,838	1,735	2,368	2,257	2,814	3,146
<b>Total expenditures</b>	<b>31,851</b>	<b>35,763</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>
Excess of revenues over (under) expenditures	(6,821)	(6,407)	(5,614)	(1,857)	(13,411)	(12,695)	(8,008)	1,700	(16,680)	(6,285)
Other Financing Sources (Uses)										
Transfers from other funds	1,521	1,401	664	2,071	1,080	704	6,863	6,628	893	840
Transfers to other funds	(1,511)	(1,334)	(581)	(1,740)	(1,080)	(373)	(6,315)	(8,148)	(1,993)	(3,174)
Proceeds of installment financing	5,469	8,872	2,087	1,340	971	3,000	7,566	-	-	-
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>5,479</b>	<b>8,939</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>Net change in fund balances</b>	<b>\$ (1,342)</b>	<b>\$ 2,532</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>
Debt service as a percentage of noncapital expenditures	12.74%	10.78%	12.27%	12.68%	10.66%	9.40%	30.05%	15.65%	18.10%	26.57%

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

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 5

ASSESSED VALUE 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>
2007	2,025,621,228	320,862,906	54,259,528	2,400,743,662	0.497
2008 <sup>(1)</sup>	2,235,917,274	354,951,354	55,510,648	2,646,379,276	0.497
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

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.

**DIRECT AND OVERLAPPING PROPERTY TAX RATES**

Last Ten Fiscal Years

(Rate per \$100 of Assessed Value)

	2007	2008 <sup>(1)</sup>	2009 <sup>(2)</sup>	2010	2011	2012 <sup>(3)</sup>	2013 <sup>(4)</sup>	2014	2015	2016 <sup>(5)</sup>
<b>City of Kannapolis:</b>										
General fund	0.4970	0.4970	0.4900	0.4900	0.4900	0.4900	0.5600	0.5600	0.6000	0.6300
<b>County Rates:</b>										
Cabarrus	0.6289	0.6300	0.6300	0.6300	0.6300	0.6300	0.7000	0.7000	0.7000	0.7000
Rowan	0.6300	0.5950	0.5950	0.5950	0.5950	0.6225	0.6225	0.6225	0.6625	0.6625

**Notes:**

- (1) Real property was revalued by Rowan County on January 1, 2007
- (2) Real property was revalued by Cabarrus County on January 1, 2008
- (3) Real property was revalued by Rowan County on January 1, 2011
- (4) Real property was revalued by Cabarrus County on January 1, 2012
- (5) Real property was revalued by Rowan County on January 1, 2015

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 7

PRINCIPAL PROPERTY TAXPAYERS  
Current Year and Nine Years Ago

Taxpayer	Type of Business	Fiscal Year 2016			Fiscal Year 2007		
		Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Castle & Cooke NCRC	Real Estate	203,761,020	1	5.18%			
Castle & Cooke LLC	Real Estate	63,116,120	2	1.60%	13,449,859	5	56.00%
Atlantic American Properties/ Club at Irish Creek, LLC	Real Estate	45,596,920	3	1.16%	24,718,020	2	1.02%
Trinity of Cabarrus LTD /Shoe Show	Shoe Distribution	36,821,410	4	0.94%	23,160,330	4	0.96%
Duke Energy Corp	Utility	34,062,325	5	0.87%	24,632,672	3	1.03%
Wachovia Development Corp	Warehousing	33,779,270	6	0.86%	-	-	
Afton Ridge Joint Venture LLC/ CK Afton Ridge Shopping Center	Real Estate	31,025,180	7	0.79%	-	-	
Integra Springs LLC	Real Estate	26,222,780	8	0.67%	-	-	
The Grand in Kannapolis LLC	Real Estate	19,472,820	9	0.50%	-	-	
Public Service Company of NC, Inc.	Utility	15,636,471	10	0.40%	8,954,377	10	0.37%
Citicorp North America	Warehousing	-	-	-	32,351,750	1	1.35%
CK Lakepoint Corp. Center LLC	Real Estate	-	-	-	12,191,040	7	0.51%
David Murdock	Real Estate	-	-	-	11,751,684	8	0.49%
Concord Telephone Company	Utility	-	-	-	12,311,401	6	0.51%
Concord Eleven, LLC	Real Estate	-	-	-	9,167,800	9	0.38%
<b>Total</b>		<b>\$ 509,494,316</b>		<b>12.95%</b>	<b>\$ 172,688,933</b>		<b>7.19%</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
2007	11,808,304	274,344	(150,952)	11,931,696	11,630,033	97.47%	286,653	11,916,686	99.87%
2008	13,145,903	138,268	(131,666)	13,152,505	12,849,354	97.70%	284,797	13,134,151	99.86%
2009	17,313,980	329,399	(25,459)	17,617,920	17,177,163	97.50%	416,868	17,594,031	99.86%
2010	18,211,307	171,026	(192,864)	18,189,469	17,471,125	96.05%	675,567	18,146,692	99.76%
2011	18,385,221	80,004	(72,720)	18,392,505	17,638,052	95.90%	696,284	18,334,336	99.68%
2012	18,661,612	115,408	(35,161)	18,741,859	18,053,024	96.32%	624,248	18,677,272	99.66%
2013	19,281,030	197,718	(148,628)	19,330,120	18,620,309	96.33%	623,105	19,243,414	99.55%
2014	20,012,799	87,303	(83,385)	20,016,717	19,430,246	97.07%	463,599	19,893,845	99.39%
2015	21,392,417	190,276	(47,143)	21,535,550	21,050,962	97.75%	325,528	21,376,490	99.26%
2016	23,502,258	137,451	(29,534)	23,610,175	23,193,274	98.23%	-	23,193,274	98.23%

Source: City of Kannapolis Finance Department

**RATIOS OF GENERAL BONDED DEBT OUTSTANDING**

Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property <sup>(1)</sup>	Per Capita <sup>(2)</sup>
2007	-	0.00%	-
2008	-	0.00%	-
2009	-	0.00%	-
2010	-	0.00%	-
2011	-	0.00%	-
2012	-	0.00%	-
2013	-	0.00%	-
2014	-	0.00%	-
2015	-	0.00%	-
2016	-	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 Bonds	Installment Obligations	Special Obligation Bonds	W/S Revenue Bonds	Limited Obligation Bonds				
2007	12,995,769	1,975,000	-	-	4,520,423	-	30,630,074	-	-	50,121,266	1,214	1.13%
2008	19,670,078	1,826,000	-	-	6,360,457	-	28,333,220	-	-	56,189,755	1,313	1.18%
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	*

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.

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**

As of June 30, 2016

(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 General Obligation Debt	79,974	16.24%	12,988
Cabarrus County COPS/LOBS	360,595	16.24%	58,561
Cabarrus County Capital Leases	4,546	16.24%	738
Rowan County General Obligation Debt	34,566	4.07%	1,407
Rowan County Installment Financing	30,397	4.07%	1,237
Subtotal, overlapping debt			74,931
<b>City direct debt</b>			<u>42,675</u>
<b>Total direct and overlapping debt</b>			<u><u>\$117,606</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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assessed Value of Property	\$ 2,400,743	\$ 2,646,379	\$ 3,548,651	\$ 3,706,995	\$ 3,737,493	\$ 3,791,828	\$ 3,456,237	\$ 3,568,617	\$ 3,584,202	\$ 3,745,416
Debt Limit, 8% of Assessed Value (Statutory Limitation)	192,059	211,710	283,892	296,560	298,999	303,346	276,499	285,489	286,736	299,633
Debt applicable to debt limitations:										
Special obligation bonds	-	-	-	-	-	-	-	-	-	11,000
Limited obligation bonds	-	-	-	-	35,000	34,425	33,125	31,685	57,593	55,197
Installment obligations	19,491	27,856	26,028	24,929	21,967	21,256	21,744	18,920	17,516	14,933
Less: Amount of bonded debt incurred for water purposes	-	-	-	-	-	-	-	-	-	-
Total net debt applicable to limitations	19,491	27,856	26,028	24,929	56,967	55,681	54,869	50,605	75,109	81,130
Legal debt margin	\$ 172,568	\$ 183,854	\$ 257,864	\$ 271,631	\$ 242,032	\$ 247,665	\$ 221,630	\$ 234,884	\$ 211,627	\$ 218,503
Total net debt applicable to the limit as a percentage of debt limit	10.15%	13.16%	9.17%	8.41%	19.05%	18.36%	19.84%	17.73%	26.19%	27.08%

**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	
		Operating Expenses			Principal	Interest		
2007	14,245,776	7,205,590		7,040,186	2,350,068	1,526,771	3,876,839	1.95
2008	14,807,217	8,180,463		6,626,754	2,296,854	1,424,410	3,721,264	1.78
2009	12,812,510	7,878,465		4,934,045	2,379,103	1,335,221	3,714,324	1.33
2010	12,842,521	7,495,923		5,346,598	2,476,833	1,240,468	3,717,301	1.44
2011	13,835,755	7,500,447		6,335,308	1,870,064	1,129,038	2,999,102	2.11
2012	13,662,511	9,097,365		4,565,146	1,547,514	932,191	2,479,705	1.84
2013	13,664,084	8,431,200		5,232,884	1,253,104	526,082	1,779,186	2.94
2014	14,618,245	8,933,072		5,685,173	1,387,555	864,802	2,252,357	2.52
2015	13,708,157	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

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

Utility service charges equal total operating revenues plus investment earning.

Principal and interest of revenue bonds only are shown here.

Coverage equals net revenues divided by total debt service requirements.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 14

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Fiscal Years

Year	Population <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
2007	41,273	5,157,773	3,929,245	33,161	29,001	5,017	4.8%	6.3%
2008	42,806	5,551,258	4,029,907	34,099	29,407	5,177	5.7%	6.3%
2009	44,104	5,946,765	4,278,802	35,280	30,620	5,117	11.7%	13.0%
2010	44,891	5,869,800	4,286,389	34,083	30,444	5,203	10.3%	11.6%
2011	42,828	6,057,692	4,124,902	34,030	29,750	5,239	10.4%	11.6%
2012	43,242	6,453,148	4,111,873	35,561	29,792	5,290	9.3%	10.3%
2013	43,312	7,025,450	4,334,051	38,079	31,365	5,442	7.9%	8.8%
2014	43,782	7,301,723	4,317,017	39,000	31,210	5,554	6.0%	6.5%
2015	44,359	7,305,647	4,326,891	38,521	34,587	5,707	5.3%	6.0%
2016	46,144	*	*	*	*	5,829	5.4%	5.8%

\* Information not yet available.

- Notes:**
- <sup>(1)</sup> The 2007-2008 population numbers were compiled by the City of Kannapolis Planning Department primarily from State and federal government sources and City permitting activity. The source for the 2009-2011 population numbers is the State of N.C. Dept. of Transportation. The 2011 population of 42,828 was determined by the 2010 census.
  - The 2012 population was determined by estimates from the US Census Bureau
  - The 2013 population was determined by estimates from the Planning Department in contact with the demographer for N.C. OSBM
  - The 2014 population of 43,782 was determined by the 2012 census.
  - The 2015 and 2016 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
  - <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

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 15

PRINCIPAL EMPLOYERS  
Current and Ten Years Ago

Employer	Fiscal Year 2016			Fiscal Year 2006		
	Employees	Rank	Percentage of Total Cabarrus County and Rowan County Employment	Employees	Rank	Percentage of Total Cabarrus County and Rowan County Employment
Shoe Show	881	1	0.54%	575	2	0.43%
Kannapolis City Schools	812	2	0.50%	725	1	0.54%
Cabarrus County Schools	413	3	0.25%	343	4	0.25%
Wayne Brothers	381	4	0.23%	-	-	-
North Carolina Research Campus	351	5	0.22%	-	-	-
City of Kannapolis	326	6	0.20%	290	5	0.21%
Target	303	7	0.19%	350	3	0.26%
Stewart-Haas Racing LLC	291	8	0.18%	-	-	-
Cabarrus Health Alliance	221	9	0.14%	247	7	0.18%
Stanley Works	217	10	0.13%	289	6	0.21%
Food Lion	-	-	-	235	8	0.17%
Kannapolis Health Care	-	-	-	150	9	0.11%
Rowan Cabarrus Community College	-	-	-	130	10	0.10%
<b>Total</b>	<b>4,196</b>		<b>2.58%</b>	<b>3,334</b>		<b>2.47%</b>

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

For 200, used Labor Force data from 6/30/06 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

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

Function/Program	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government	21	26	30	30	29	29	28	21 <sup>(3)</sup>	31	40 <sup>(4)</sup>
Public safety	153	150	166	168	167	165	187	197	192	196
Public works admin and engineering	7	8	6	6	6	6	7	9	9	9
Parks and recreation	-	-	-	-	-	-	-	10 <sup>(3)</sup>	11	8
Streets and sign shops	23	11	11	11	11	9	8	11	8	12
Stormwater	2 <sup>(1)</sup>	13	13	12	13	13	13	13	13	13
Water - Sewer billing and collections	11	12	6	5	6	6	7	9	7	7
Water - Sewer distribution	22	27	28	27	27	26	27	28	28	29
Water treatment plant	9	10	10	10	10	10	10	10	10	11
<b>Total</b>	<b>248</b>	<b>257</b>	<b>270</b>	<b>269</b>	<b>269</b>	<b>264</b>	<b>287</b>	<b>308</b>	<b>309</b>	<b>325</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 2,184 and 2,758 hours per year respectively.

<sup>(1)</sup> Data shows that in 2007 the City implemented a new division for Stormwater.

<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	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>General Government:</b>										
Collection rate for city taxes	97.47%	97.70%	97.50%	96.05%	95.90%	96.32%	96.33%	97.07%	97.37%	98.23%
Applications for employment processed	600	792	1,924	1,521	1,851	1,408	1,554	1,467	1,367	957
Hiring rate	8.67%	6.00%	5.30%	5.30%	3.67%	3.27%	4.40%	2.65%	2.12%	8.97%
<b>Parks and Recreation:</b>										
Concerts presented by the City	6	7	14	15	14	12	14	19	19	19
Shelter reservations	486	456	788	973	1029	943	911	1580	956	1021
<b>Police:</b>										
Homicide and death investigations	14	16	15	12	7	13	55	53	61	71
Assault investigations	53	67	45	66	66	70	34	39	38	49
<b>Fire:</b>										
Response to all in City incidents within six minutes	NA	NA	85%	90%	4849	4274	90%	83.8%	80.7%	79.0%
Average response time (minutes) for fire calls	4:43	4:35	NA	NA	NA	NA	3:49	4:46	4:20	4:19
Number of fire inspections for businesses	420	583	902	1,136	1,280	1,550	682	1,420	1,689	5,946
<b>Storm water:</b>										
Shoulder work and ditches cleared (miles)	NA	15	8.50	4.50	4.00	9.00	3.47	9.75	3.9	5
Drainage structures (repaired & constructed)	331	65	65	28	31	133	121	404	16	18
<b>Streets And Sign Shop:</b>										
Reconstruction resurfacing (miles)	0.25	4.50	4.89	0.00	0.36	2.83	1.52	3.20	3.65	3.65
Pavement repairs (including potholes)	1,293	1,968	1,917	1,526	1,538	935	1,242	1,654	4,615	7,370
Street name signs installed or repaired	444	438	359	154	126	202	760	358	182	218
Information signs installed or repaired	220	268	458	332	268	466	638	1,060	1,794	1,740
<b>Water Sewer Distribution:</b>										
Water services installed	472	99	59	32	35	39	54	53	46	103
Sewer services installed	80	71	40	21	4	11	11	55	10	57

Continued on next page.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 17 (CONTINUED)

OPERATING INDICATORS BY FUNCTION  
Last Ten Fiscal Years

ction/Program	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water Treatment Plant:										
Total water treated (per billion gallons)	1.350	1.355	1.370	1.270	1.210	1.230	1.305	1.424	1.100	1.550
Unit cost of treatment (\$/1,000 Gal)	1.075	1.758	1.753	1.670	1.610	1.670	1.358	1.461	1.510	1.490
Water Sewer Billing Collections:										
Average number of walk in customers	6,505	5,328	6,519	6,543	6,662	6,900	6,221	6,145	6,527	6,421
Water and Sewer collection percentage	99.45%	99.08%	98.02%	97.00%	97.30%	98.80%	97.63%	98.76%	98.00%	97.69%

Sources: Various County departments.

NOTES:

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

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

Function/Program	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Parks and recreation:</b>										
Park facilities	7	8	8	8	8	8	9	8	8	8
Acreage	114	114	114	114	114	114	114	114	114	128
Picnic shelters	15	15	15	15	15	15	15	15	15	15
Softball fields	3	3	3	3	3	3	4	4	4	4
Playgrounds	5	5	5	5	6	6	7	7	7	7
Soccer fields	1	1	1	1	1	1	1	1	1	1
<b>Fire Protection:</b>										
Stations	4	4	5	5	5	5	5	5	5	5
Fire trucks (pumper)	9	9	10	10	10	10	10	9	8	8
Fire trucks (ladder)	1	1	1	2	2	2	2	2	2	2
<b>Police:</b>										
Patrol cars	64	60	60	66	69	65	56	57	59	60
Total police vehicles	90	93	105	106	107	102	104	103	104	109
<b>Streets:</b>										
Miles of streets	218	222	224	224	225	226	226	227	227	227
<b>Water:</b>										
Miles of water mains	290	300	311	326	325	330	329	320	324	324
<b>Wastewater:</b>										
Miles of sanitary sewers	300	300	315	315	325	318	317	325	316	317
Treatment capacity <sup>(1)</sup>	15	15	15	15	15	15	15	27	25	26

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



CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 19

PROPERTY VALUES AND CONSTRUCTION  
Last Ten Fiscal Years

Fiscal Year Ended June 30	Commercial Construction		New Construction		Residential Construction Number of Units	Value	Total Value Of New Construction	Total Additions And Alterations	Total Value Of New Construction And Additions
	Number of Units	Value	Value	Number of Units					
2016	81	57,578,745	57,578,745	305	45,456,760	103,035,505	11,296,388	114,331,893	
2015	41	65,320,262	65,320,262	292	43,319,992	108,640,254	11,901,231	120,541,485	
2014	54	22,521,075	22,521,075	298	41,005,304	63,526,379	11,714,672	75,241,051	
2013	41	22,997,714	22,997,714	287	24,471,966	47,469,680	9,821,608	57,291,288	
2012	35	13,910,550	13,910,550	164	14,756,882	28,667,432	5,278,660	33,946,092	
2011	29	14,849,799	14,849,799	66	6,303,349	21,153,148	10,592,739	31,745,887	
2010	31	22,466,098	22,466,098	368	27,553,968	50,020,066	5,052,198	55,072,264	
2009	34	17,723,212	17,723,212	405	38,676,547	56,399,759	5,397,414	61,797,173	
2008	60	72,772,109	72,772,109	356	42,792,510	115,564,619	8,622,715	124,187,334	
2007	57	93,987,826	93,987,826	407	55,850,536	149,838,362	10,548,075	160,386,437	

Source: Cabarrus County Inspections Department

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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, 2016, 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 24, 2016.

### **Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, NC  
October 24, 2016

# 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, 2016. 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 the requirements of laws, regulations, contracts, and grants applicable to its State programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City of Kannapolis' major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of 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, 2016.

### **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, NC  
October 24, 2016



**CITY OF KANNAPOLIS, NORTH CAROLINA**

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

**Financial Statements**

Type of report the auditor issued on whether the financial statements 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, 2016**

**2. Financial Statements Findings**

None reported

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

None reported

**CITY OF KANNAPOLIS, NORTH CAROLINA**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

None

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-Through Grant Number</u>	<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Pass-Through to Subrecipient Expenditures</u>
<b>U.S. Department of Housing and Urban Development:</b>					
<b>Direct Program:</b>					
CDBG Entitlement Grants Cluster					
2006 Block Grant - Entitlement Grant	14.218		\$ 142,549	\$ -	\$ -
2012 Block Grant - Entitlement Grant	14.218		45,423	-	-
2013 Block Grant - Entitlement Grant	14.218	B-13-MC-37-0017	31,563	-	-
2014 Block Grant - Entitlement Grant	14.218	B-14-MC-37-0017	110,558	-	-
2015 Block Grant - Entitlement Grant	14.218	B-15-MC-37-0017	158,401	-	48,000
Total CDBG Entitlement Grants Cluster			488,494	-	48,000
Passed Through City of Concord					
2011 Home Investment Partnership Program	14.239	M-11-DC-370209	15,295	-	-
2013 Home Investment Partnership Program	14.239	M-13-DC-370209	5,000	-	-
2014 Home Investment Partnership Program	14.239	M-14-DC-370209	82,492	-	-
2015 Home Investment Partnership Program	14.239	M-15-DC-370209	715	-	-
2015 Home Investment Partnership Program - Program Income	14.239	M-15-DC-370209	13,969	-	-
			117,471	-	-
Total U.S. Department of Housing and Urban Development			605,965	-	48,000
<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	45495.1.1	18,754	-	-
Total Highway Planning and Construction Cluster			18,754	-	-
Total Assistance - Federal Awards			624,719	-	48,000
<b>State Awards:</b>					
<b>N.C. Department of Transportation:</b>					
Powell Bill			-	1,280,133	-
Golden Leaf Foundation - Project Jorden			-	290,905	-
Total Assistance - State Awards			-	1,571,038	-
Total Federal and State Awards			\$ 624,719	\$ 1,571,038	\$ 48,000

Notes to the Schedule of Federal and State Financial 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, 2016. 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.