



**City of Kannapolis, North Carolina
Annual Comprehensive
Financial Report**
for the Fiscal Year Ended June 30, 2025

**CITY OF KANNAPOLIS
NORTH CAROLINA**

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2025

Prepared by:
Finance Department

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CITY OF KANNAPOLIS, NORTH CAROLINA

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December 5, 2025

To the Honorable Mayor, Members of the Governing Council
and Citizens of the City of Kannapolis:

State law requires that every general-purpose local government publish, within six months of the close of each fiscal year, a complete set of audited financial statements. This report is published to formally transmit and issue the Annual Comprehensive Financial Report (ACFR) of the City of Kannapolis, North Carolina, for the fiscal year ending June 30, 2025.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that the City has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. 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' financial statements have been audited by Martin Starnes & Associates, CPAs, P.A., and issued an unmodified, free of material misstatement opinion on the City of Kannapolis's financial statements for the year ended June 30, 2025. 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'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.

Management has provided 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 GOVERNMENT

The City of Kannapolis, incorporated December 11, 1984, is in the north central portion of Cabarrus County and the south-central portion of Rowan County, North Carolina. These counties are in the east central part of the state, which is one of the top growth areas in the state. It currently covers approximately 34 square miles and serves an approximate population of 57,706 and the assessed valuation for property tax purposes is \$9,021,632,957. The City of Kannapolis 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, including 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 service, 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 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 requests 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 a public hearing 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 function 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 approve interdepartmental transfers within a fund. Budget to actual comparisons is 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 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. Management cannot overspend the approved budget at the functional level without approval of the governing board. Budget amendments require governing board approval to increase total appropriation to allow for increased expenditures. Encumbrances outstanding at year-end can expire and must again be appropriated by City Council in the subsequent year.

LOCAL ECONOMY

The City of Kannapolis is a multi-faceted community that combines the stability of long-term residents and a steady growth of new subdivisions and multi-family options with an array of businesses and corporations along I-85. Five industrial parks are under construction or have been completed within the last two years, bringing millions in investment and many employment opportunities. Kannapolis is the 19th largest city in North Carolina with a revitalized downtown that has over 50 new businesses anchored by the restored Gem Theatre, (a first run movie theatre) and the Swanee Theatre, a live event venue.

The City 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 adopting a long-range strategic plan for the Center City. Public-private partnerships have resulted in the VIDA ,mixed-use project, a 285-unit, multi-family apartment complex, more than 18,000 square foot space parking deck. The downtown area of Kannapolis has proven to be prime real estate and a major economic development factor. There has been a total of \$122 million of private capital investment in downtown since revitalization efforts began.



The 5,000 seat, \$52 million Atrium Health Ballpark opened in 2020 and has hosted all types of civic events as well as Minor League Baseball. To support all this new development, the City completed a replacement and upgrade of its below ground infrastructure throughout the Downtown area totaling \$24 million. The highlight of this project is the creation of a new street scape, road design, and a linear park totaling another \$4 million in public investment.



Growth and development in the City has been strong. Currently there are over 40 residential subdivisions in the City with plans to build approximately 7,500 new homes and apartments units within the next decade. Amazon is the City's largest private employer, with about 900 employees. Shoe Show is the City's second largest private employer, with about 800 employees. Gordon Foods, Chick-fil-A Supply and Rebel are also significant private sector employers in Kannapolis. Additional recent investments from Prime Beverage and Reynolds for existing shell-building upfits have brought in more jobs. Novant Health has announced plans to build a hospital in the City by 2030.

The growing population of the City and Cabarrus and Rowan Counties provides a steady flow of workers into the job market. Unemployment rates stayed steady at or below 4% for both Counties. Job training is made possible by the vocational education programs in public schools and by three neighboring community colleges and technical schools.

A major initiative in the City over the last two decades has been the development of the North Carolina Research Campus (the "NCRC"). Multiple facilities are open and operating on the NCRC, including the David H. Murdock Core Laboratory (the "Core Lab"), the Plants for Human Health Building and the Nutrition Research Building.

Rowan Cabarrus Community College's original NC Research Campus building houses their science and nursing programs in a 62,000 square foot facility. Their 55,000 square foot Advanced Technology Center opened in 2019 and is home to the College's engineering, and Information Technology programs and houses a ground floor flex lab that allows the college to collaborate with industry partners, for example in robotics and mechatronics. NCRC's private and institutional partners include Atrium Health, Cabarrus Health Alliance, Discovery Center, Standard Process, and Eremid. The North Carolina Food Innovation Lab opened late 2019 as a pilot plant that assists companies with product research, development, and getting new products to market.

LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES

In the spring of 2012, the Kannapolis City Council adopted a ten-year financial forecasting model. This model is updated annually, and it details all significant revenues and expenditures across all funds for the city. In order to determine future revenues and expenditures, the City has compiled twenty 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 August 2023, S&P Global Ratings raised its issuer credit rating to 'AA' from 'AA-' for the City and its appropriation rating to 'AA-' from 'A+'. Additionally, in April 2024, Moody's Ratings upgraded the City's issuer rating to Aa2 from Aa3 and its outstanding limited obligation bonds to Aa3 from A1.

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 these policies, as well as the financial forecasting model, is to design parameters stipulating the 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 Annual Comprehensive Financial Report for the fiscal year ended June 30, 2024. 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 ACFR, whose contents conform to program standards. The annual comprehensive 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 City of Kannapolis also receives the GFOA's Distinguished Budget Presentation Award for its annual budget document dated June 30, 2024. To qualify for the Distinguished Budget Presentation Award, the City of Kannapolis budget document had to be judged proficient as a policy document, a financial plan, an operating guide and a communication device.

The timely presentation of this report could not have been completed without the assistance and education of the entire staff of the Finance Department. 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,



Brian L. Roberts
Finance Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Kannapolis
North Carolina**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2024

Christopher P. Morrell

Executive Director/CEO

CITY OF KANNAPOLIS
NORTH CAROLINA

MAYOR AND CITY OFFICIALS

MAYOR AND CITY COUNCIL

M. Darrell Hinnant – Mayor

Dianne Berry – Mayor Pro Tem

Doug Wilson – Council Member

Ryan G. Dayvault – Council Member

Jeanne Dixon – Council Member

Darrell Jackson – Council Member

Tom Kincaid – Council Member

OFFICIALS

Michael B. Legg
City Manager

R. Edward Smith
Deputy City Manager

Wilmer Melton
Assistant City Manager

Tina H. Cline
Assistant City Manager

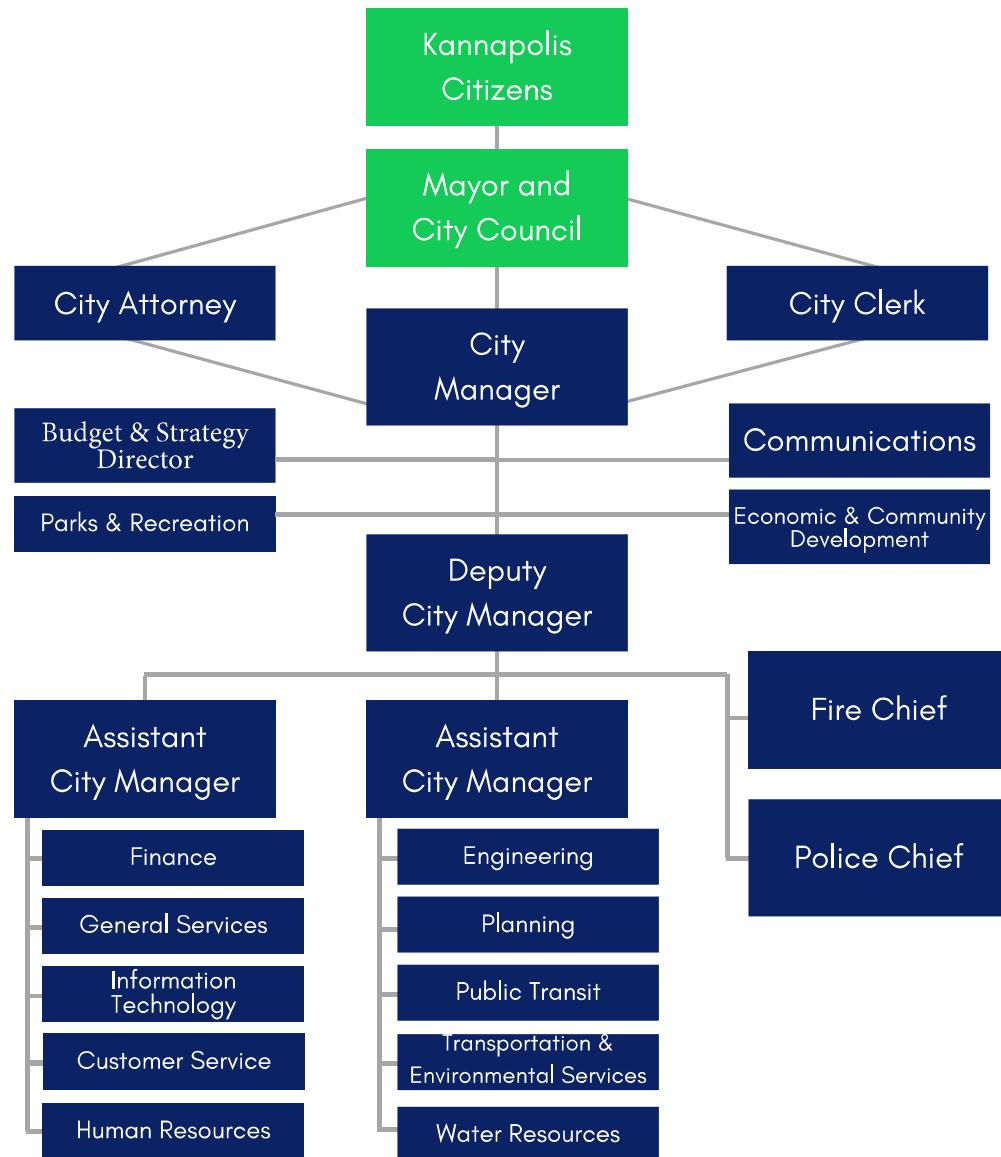
Pamela Scaggs
City Clerk

W. Andrew Kelly
City Attorney

Heather James
Human Resources Director



CITY ORGANIZATION



Financial Section

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

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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 Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kannapolis, North Carolina, as of and for the year ended June 30, 2025, 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.

In our opinion, the accompanying 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, 2025, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 10 to the financial statements, in 2025 the City adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered-Employee Payroll, the Other Post-Employment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, and the Local Governmental 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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 combining and individual fund financial statements, budgetary schedules, and other schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. *Code of Federal Regulations 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory information and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2025 on our consideration of the City of Kannapolis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Kannapolis' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Kannapolis' internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.

Hickory, North Carolina

December 5, 2025

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, 2025. 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 \$247,572,180 (*net position*).
- The government's total net position increased by \$19,317,183, due to an increase in the governmental activities net position.
- As of the close of the current fiscal year, the City of Kannapolis' governmental funds reported combined ending fund balances of \$49,626,850, which is a decrease of \$5,111,597 in fund balance. Approximately 29% of this total amount, or \$14,156,220, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$24,839,823.
- The City of Kannapolis' total debt decreased \$13,470,823 or 8.5% during the current fiscal year due to principal payments made throughout the year.
- The City maintained the following underlying bond ratings:

Water and Sewer Revenue Bonds

Standard & Poor's	A+
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Limited Obligation Bonds

Moody's	Aa3
Standard & Poor's	AA-

Issuer Credit Rating

Moody's	Aa2
Standard & Poor's	AA

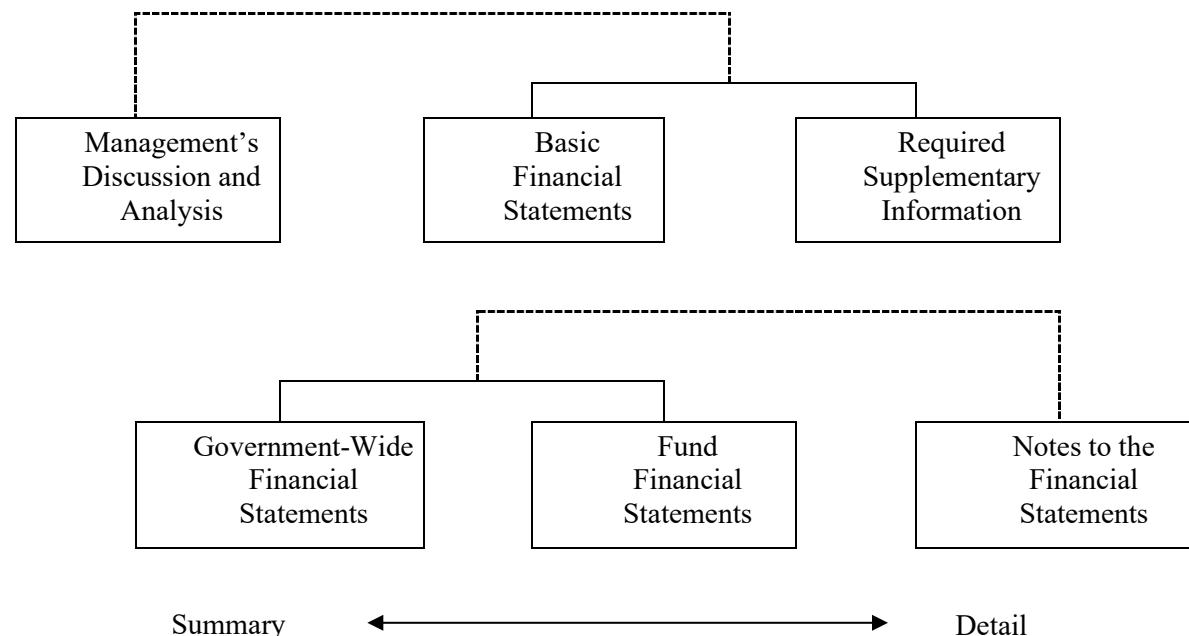
- In August 2023, the Standard & Poor's upgraded the ratings for the Limited Obligation Bonds to AA- and the Issuer Credit Rating to AA.
- In April 2024, Moody's Ratings ("Moody's") upgraded the issuer credit rating from Aa3 to Aa2. In addition, the City's appropriation-backed debt rating for outstanding limited obligation bonds was upgraded from A1 to Aa3.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

The remaining statements (Exhibits C through I) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

The financial statements also include **Notes** that explain some of the information in the financial statements and provide more detailed data. Following the notes is the section of **Required Supplemental Information** and a section of **Supplementary Information** – with combining statements that provide details on the City's nonmajor governmental funds and Internal Service Fund, both of which are combined into one column on the basic financial statements. Budgetary information required by the North Carolina General Statutes can also be found in this part of the statements.

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements are on Exhibits A and B of this report, pages 22 through 25.

Fund Financial Statements

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

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

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

The City maintains thirteen 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, which is considered to be a major fund. 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 26 through 35 of this report.

Proprietary Funds. The City maintains two types of proprietary fund. Enterprise and internal service funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations, stormwater operations and environmental services operations. The City uses an internal service fund as an accounting device to accumulate and allocate costs internally among the functions of the City. The City uses one internal service fund to account for its self-insured health and workers' compensation benefits. These funds are the same as those functions shown in the governmental activities in the Statement of Net Position and the Statement of Activities.

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

The basic proprietary fund financial statements can be found on pages 36 through 41 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 42 through 108 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 109 through 113 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 122 through 140 of this report for the City's governmental funds and on pages 141 through 149 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 (108%) 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 \$10,146,321 and (\$29,522,733), respectively, and may be used to meet the government's ongoing obligations to citizens and creditors. The restricted net position may be used only to pay restricted current and future obligations as dictated by restrictive covenants pertaining to these assets.

City of Kannapolis' Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	Restated					
	2025	2024	2025	2024	2025	2024
Assets:						
Other assets	\$ 79,685,364	\$ 77,908,193	\$ 29,202,972	\$ 30,227,691	\$ 108,888,336	\$ 108,135,884
Capital & right to use assets	<u>262,734,308</u>	<u>260,660,916</u>	<u>141,786,068</u>	<u>139,519,915</u>	<u>404,520,376</u>	<u>400,180,831</u>
Total assets	<u>342,419,672</u>	<u>338,569,109</u>	<u>170,989,040</u>	<u>169,747,606</u>	<u>513,408,712</u>	<u>508,316,715</u>
Deferred Outflows of Resources						
	<u>21,933,385</u>	<u>24,114,351</u>	<u>6,156,355</u>	<u>6,780,326</u>	<u>28,089,740</u>	<u>30,894,677</u>
Liabilities:						
Long-term liabilities outstanding	135,308,725	159,775,104	61,332,553	68,531,849	196,641,278	228,306,953
Other liabilities	<u>26,823,345</u>	<u>18,577,093</u>	<u>8,107,172</u>	<u>8,101,080</u>	<u>34,930,517</u>	<u>26,678,173</u>
Total liabilities	<u>162,132,070</u>	<u>178,352,197</u>	<u>69,439,725</u>	<u>76,632,929</u>	<u>231,571,795</u>	<u>254,985,126</u>
Deferred Inflows of Resources						
	<u>53,823,288</u>	<u>43,855,934</u>	<u>8,531,189</u>	<u>6,016,564</u>	<u>62,354,477</u>	<u>49,872,498</u>
Net Position:						
Net investment in capital assets	171,500,777	158,584,869	95,447,815	88,839,375	266,948,592	247,424,244
Restricted	<u>10,146,321</u>	<u>12,040,828</u>	<u>-</u>	<u>-</u>	<u>10,146,321</u>	<u>12,040,828</u>
Unrestricted	<u>(33,249,399)</u>	<u>(30,150,368)</u>	<u>3,726,666</u>	<u>5,039,064</u>	<u>(29,522,733)</u>	<u>(25,111,304)</u>
Total net position	<u>\$ 148,397,699</u>	<u>\$ 140,475,329</u>	<u>\$ 99,174,481</u>	<u>\$ 93,878,439</u>	<u>\$ 247,572,180</u>	<u>\$ 234,353,768</u>

The City's total net position increased by \$19,317,183, while unrestricted net position decreased this fiscal year by \$4,411,429. Several aspects of the City's financial operations that positively influenced the total net position are \$11.1 million increase in property taxes due to Cabarrus County revaluation, \$4.3 million increase in sales and franchise taxes, \$3.1 million in donated assets, and \$4.4 million increase in charges for services.

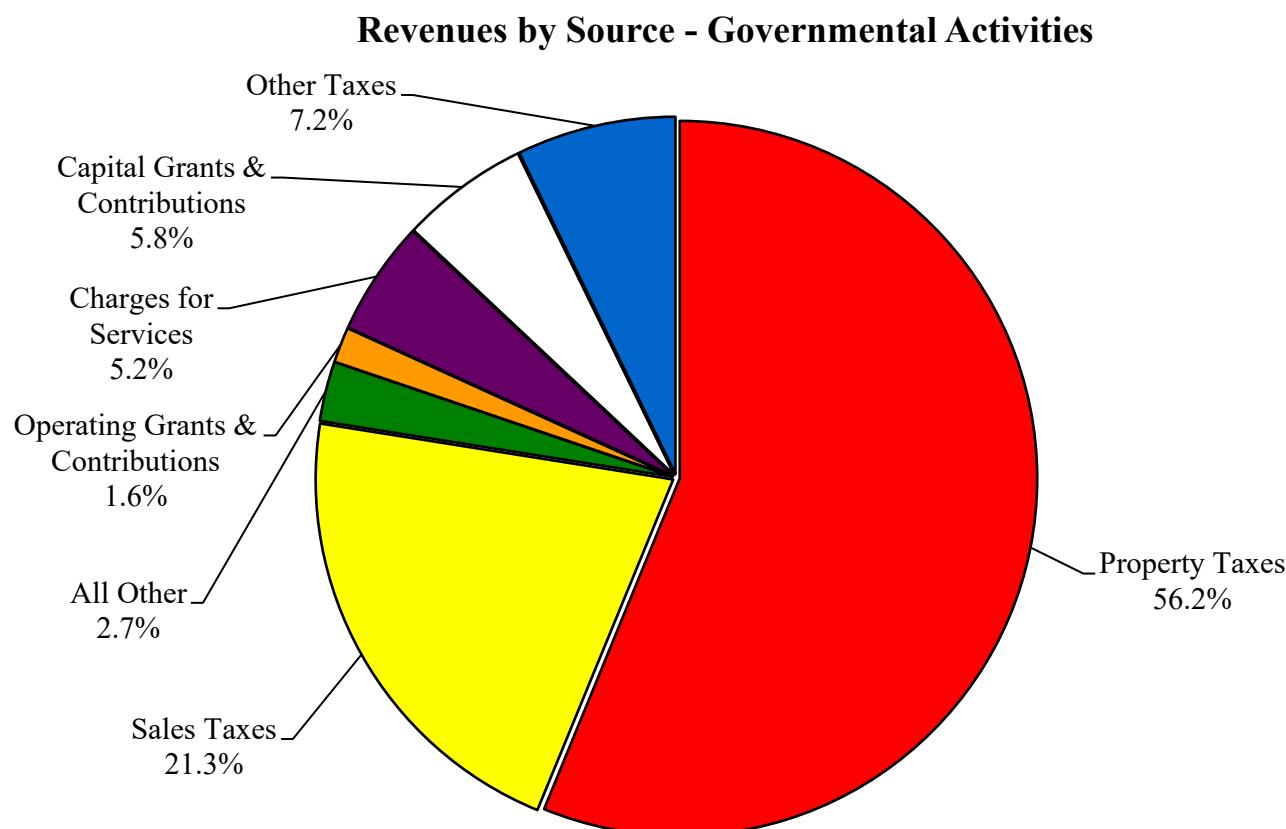
City of Kannapolis' Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues:						
Charges for services	\$ 4,660,616	\$ 3,270,398	\$ 34,687,047	\$ 31,685,275	\$ 39,347,663	\$ 34,955,673
Operating grants and contributions	1,399,917	3,010,040	83,800	141,200	1,483,717	3,151,240
Capital grants and contributions	5,227,774	4,750,600	3,166,743	500,000	8,394,517	5,250,600
General revenues:						
Property taxes	50,541,223	39,433,118	-	-	50,541,223	39,433,118
Other taxes	25,681,343	21,336,005	-	-	25,681,343	21,336,005
Other revenues	2,388,970	2,980,562	972,594	1,192,058	3,361,564	4,172,620
Total revenues	<u>89,899,843</u>	<u>74,780,723</u>	<u>38,910,184</u>	<u>33,518,533</u>	<u>128,810,027</u>	<u>108,299,256</u>
Expenses:						
General government	15,467,904	18,649,403	-	-	15,467,904	18,649,403
Public safety	27,070,302	25,579,785	-	-	27,070,302	25,579,785
Public works	9,922,324	8,445,600	-	-	9,922,324	8,445,600
Community development	7,662,100	5,615,948	-	-	7,662,100	5,615,948
Parks and recreation	9,788,240	12,994,566	-	-	9,788,240	12,994,566
Water and sewer	-	-	26,100,039	23,876,999	26,100,039	23,876,999
Stormwater	-	-	3,059,776	3,622,961	3,059,776	3,622,961
Environmental services	-	-	6,991,239	4,856,262	6,991,239	4,856,262
Other	3,430,920	3,886,321	-	-	3,430,920	3,886,321
Total expenses	<u>73,341,790</u>	<u>75,171,623</u>	<u>36,151,054</u>	<u>32,356,222</u>	<u>109,492,844</u>	<u>107,527,845</u>
Change in net position before transfers	16,558,053	(390,900)	2,759,130	1,162,311	19,317,183	771,411
Transfers	<u>(3,410,440)</u>	<u>(1,147,817)</u>	<u>3,410,440</u>	<u>1,147,817</u>	<u>-</u>	<u>-</u>
Change in net position	<u>13,147,613</u>	<u>(1,538,717)</u>	<u>6,169,570</u>	<u>2,310,128</u>	<u>19,317,183</u>	<u>771,411</u>
Net Position:						
Beginning of year - July 1	140,475,329	142,213,655	93,878,439	91,568,311	234,353,768	233,781,966
Restatement	<u>(5,225,243)</u>	<u>(199,609)</u>	<u>(873,528)</u>	<u>-</u>	<u>(6,098,771)</u>	<u>(199,609)</u>
Beginning of year - July 1, as restated	<u>135,250,086</u>	<u>142,014,046</u>	<u>93,004,911</u>	<u>91,568,311</u>	<u>228,254,997</u>	<u>233,582,357</u>
End of year - June 30	<u>\$148,397,699</u>	<u>\$140,475,329</u>	<u>\$ 99,174,481</u>	<u>\$ 93,878,439</u>	<u>\$ 247,572,180</u>	<u>\$ 234,353,768</u>

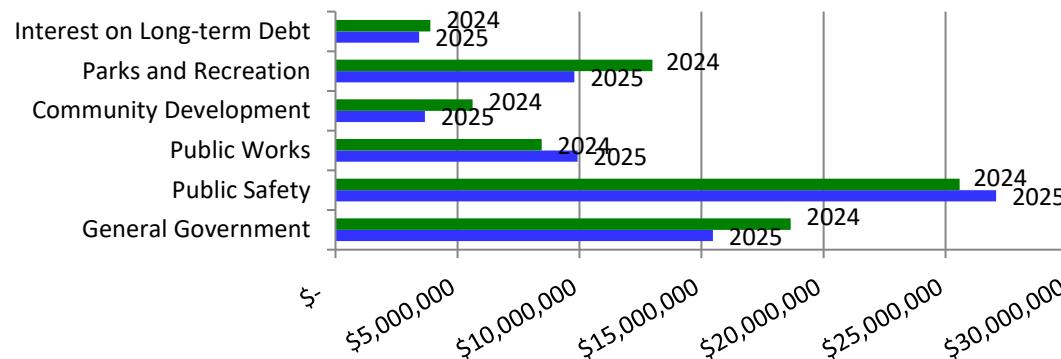
Governmental Activities. Net position increased in the City's governmental activities this fiscal year by \$13,147,613. Key elements of this increase are as follows:

- \$11.1 million increase in property tax revenues
- \$ 4.3 million increase in sales and franchise tax revenue
- \$ 3.2 million decrease in parks and recreation expenditure
- \$ 2.2 million increase in transfers to other funds
- \$ 2.0 million increase in community development expenditures

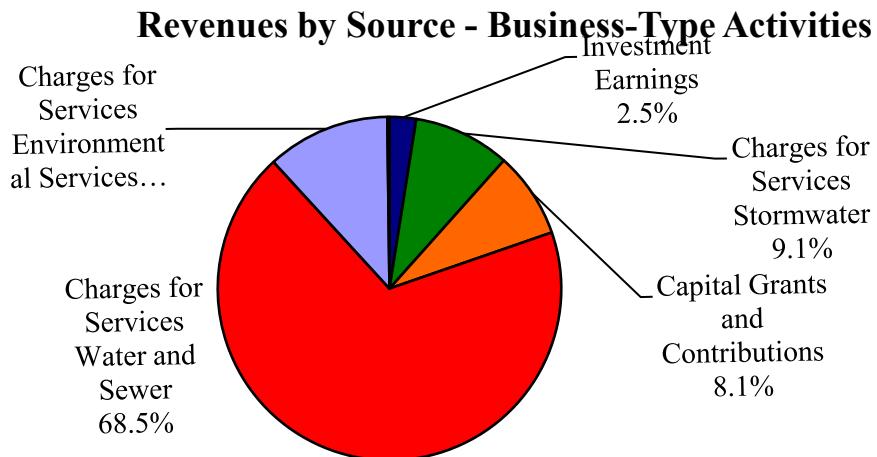


As shown in the above chart, the City's main source of revenue is from property taxes. The second largest source of revenue is sales taxes. Property taxes total \$50,541,223, while sales taxes total \$19,161,014. The third largest source of revenue is other taxes. The City received grants from various federal and state agencies, including the United States Department of Housing and Urban Development, the United States Department of Energy, the United States Department of Justice, the United States Department of Transportation, the United States Department of Treasury, NC Department of Transportation, the NC Department of Environmental Quality, University of North Carolina Chapel Hill, and North Carolina Office of State Controller.

Government Activities Expenses



Business-Type Activities. Business-type activities increased in the City of Kannapolis' net position by \$6,169,570. The major elements of this increase over last year are the \$2.8 million increase in charges for services and other revenues; \$2.7 million increase in donated assets; and \$2.3 million increase in transfers. Additional reasons for the change include a combination of investments for future growth in which revenues will be realized after expansion.



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's fund balance unassigned in the General Fund was a \$24,839,823, while total fund balance reached \$42,653,921. This is a decrease of \$8,285,700 in unassigned and a decrease of \$8,277,783 in total fund balance from fiscal year 2024. The decrease seen in total fund balance for the General Fund is attributable primarily to \$9.2 million in transfers to other funds that include strategic plan initiatives. The City currently has an available fund balance of 38.73% of General Fund expenditures and transfers out, while total fund balance represents 45.97% 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.

At June 30, 2025, the governmental funds of the City of Kannapolis reported a combined fund balance of \$49,626,850, with a net decrease in fund balance of \$5,111,597. The City had \$3,632,157 of expenditures over revenues. The City transferred out \$9,196,909 from the General Fund to Capital Project Funds, Special Revenue Funds and the Environmental Services Fund.

General Fund Budgetary Highlights

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

Total amendments to the General Fund increased revenues, expenditures, and other financing sources (uses) by \$25,495,278 or 30.62%. Actual revenues exceeded estimates which supported appropriating fund balance to implement priority projects and initiatives identified by City Council.

The total variance from the final budget numbers to the actual results for revenues that the City received was \$1,954,534 or 2.35%, more than the original budgeted amount. Property tax revenue exceeded budget by \$878,637, and sales tax revenue exceeded budget by \$199,341. Total revenue increased by 15.89% from fiscal year 2024.

The total variance from the final budget numbers to the actual results for expenditures totaled \$13,974,460, or 14.60%, of the final budget, compared to a variance of 20% in the prior fiscal year.

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, 2025 was \$3,726,666 compared to \$5,039,064 at June 30, 2024. Specifically, the unrestricted portion of net position for Water and Sewer was \$3,699,275, resulting in a change from prior year of (\$1,822,359). Water and Sewer had an increase in net investment in capital assets of \$6,120,575 combined with a increase in capital contributions of \$3,166,743. Operating revenues increased by 10% mostly driven by increased charges for services. Operating expenses increased by 10% mostly driven by an increase in wastewater treatment fixed and variable costs. The unrestricted portion of net position for Stormwater was (\$1,367,278), resulting in a change from prior year of \$285,204. Stormwater had an increase in net investment in capital assets of \$204,544. Operating revenues increased by 10% due to an increase in charges for services. Operating expenses decreased by 16% resulting in an operating increase of 646,863. The unrestricted portion of net position of Environmental Services was \$1,394,669, resulting in a change from prior year of \$224,757. Environmental Services had an increase in net investment in capital assets of \$283,321. Operating revenues increased by 6% due to increased charges in services. Operating expenses increased by 44%.

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, 2025 totaled \$405,822,370 (net of accumulated depreciation). This is an increase from June 30, 2024 of \$4,291,323. These assets include land, buildings, improvements, distribution systems, machinery and equipment, and infrastructure. Major capital asset transactions during the year included the following:

- Building and improvements
 - City Hall Renovations \$1,341,935
 - Fire Stations 1 and 4 \$1,016,439
- Construction in Progress
 - (CIP) Water and Sewer Projects \$1,869,013
- Infrastructure – Water and Sewer
 - Donated Assets \$3,166,743
- Machinery and Equipment
 - General Fund \$4,139,221
 - Water and Sewer Fund \$962,226
 - Environmental Fund \$430,515

City of Kannapolis' Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Land	\$ 29,182,461	\$ 29,182,461	\$ 839,066	\$ 839,066	\$ 30,021,527	\$ 30,021,527
Construction in progress	1,568,029	1,353,930	11,724,473	9,855,460	13,292,502	11,209,390
Rowan County water rights	-	-	2,411,100	2,411,100	2,411,100	2,411,100
Buildings and systems	133,959,331	131,191,008	23,423,662	23,423,662	157,382,993	154,614,670
Improvements other than buildings	39,610,386	38,721,435	-	-	39,610,386	38,721,435
Machinery and equipment	26,514,518	24,326,375	12,248,463	11,131,192	38,762,981	35,457,567
Infrastructure	162,927,702	161,694,202	171,384,452	168,175,348	334,312,154	329,869,550
Right-to-use leased assets	3,221,981	3,221,981	-	-	3,221,981	3,221,981
Right-to-use subscription assets	<u>56,181</u>	<u>56,181</u>	-	-	<u>56,181</u>	<u>56,181</u>
Total	397,040,589	389,747,573	222,031,216	215,835,828	619,071,805	605,583,401
Less accumulated depreciation and amortization	134,306,281	129,086,657	78,943,154	74,965,697	213,249,435	204,052,354
Capital assets, net	<u>\$ 262,734,308</u>	<u>\$ 260,660,916</u>	<u>\$ 143,088,062</u>	<u>\$ 140,870,131</u>	<u>\$ 405,822,370</u>	<u>\$ 401,531,047</u>

For additional information on the City's capital assets, see pages 61 through 63 of this report.

Long-Term Debt

At the end of the current fiscal year, the City of Kannapolis had total debt outstanding of \$145,717,770. Of this amount, \$47,543,000 represents bonds secured solely by water and sewer revenues (i.e. revenue bonds). The City also had \$10,803,441 in outstanding installment obligations and \$86,323,694 in outstanding special obligation and limited obligation bonds. The City maintained its positive credit ratings this year.

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Direct placement notes payable	\$ 10,603,154	\$ 11,863,308	\$ 200,287	\$ 309,552	\$ 10,803,441	\$ 12,172,860
Revenue bonds	-	-	47,543,000	51,903,000	47,543,000	51,903,000
Special obligation bonds	4,398,000	5,131,000	-	-	4,398,000	5,131,000
Limited obligation bonds	77,375,700	83,238,922	4,549,994	4,899,994	81,925,694	88,138,916
Leases - equipment	1,026,537	1,803,636	-	-	1,026,537	1,803,636
Subscriptions	21,098	39,181	-	-	21,098	39,181
Total	<u>\$ 93,424,489</u>	<u>\$ 102,076,047</u>	<u>\$ 52,293,281</u>	<u>\$ 57,112,546</u>	<u>\$ 145,717,770</u>	<u>\$ 159,188,593</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, 2025, the legal debt limit for the City totaled approximately \$624,604,000. The City Council adopted a debt management policy in May of 2012. According to this policy, the net debt (tax supported) should not exceed 4% of the total assessed value of taxable property.

Additional information on the City of Kannapolis' long-term debt can be found in Note 3(B) on pages 84 through 98 of this report.

Accounting Change

During fiscal year 2025, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. This standard requires governments to recognize a liability for certain types of compensated absences when the leave is earned, rather than when it is taken. The application of GASB 101 resulted in a restatement of \$5,225,243 and \$873,528 to the beginning net position of the governmental activities and business-type activities, respectively. As a result, amounts reported in Management's Discussion and Analysis for fiscal year 2025 are not comparable to those reported for fiscal year 2025, which have not been restated in the prior year comparative information. However, management also found a prior year error during fiscal year 2025, resulting in a restatement of \$346,107 that is reflected in the Management's Discussion and Analysis. See Note 10 for additional information regarding the impact of this standard and the restatement in the current year's financial statements.

Economic Factors and Next Year's Budgets and Rates

The total FY 2025-26 (FY 26) Budget for the City of Kannapolis is \$126,007,842, a 2.36% increase (\$2,722,549 actual) over the FY 2024-25 budget. This is the third year in the City's 40-year history that the total City budget exceeded \$100 million.

The FY 26 Budget total is the sum of the General Fund, the Water and Sewer Fund, the Stormwater Fund, the Environmental Fund, the Public Transit System Fund, the Separation Pay Fund, and the Insurance and Risk Fund. This total budget figure excludes any interfund transfers (as defined by transfers between the annually adopted funds). Interfund transfers total \$9,462,867 all from the General Fund (\$721,500 to the Separation Pay Fund, \$968,698 to the Transit Fund, and \$1,832,669 to the Environmental Fund and \$5,940,000 to Insurance and Risk Fund).

The following overarching themes have driven the FY 26 budget: being fiscally responsible in challenging times, supporting the most valuable asset for our City, our existing employees, continued use of excess cash reserves to fund key projects and initiatives, advancing key City Council priorities, including implementation of the Imagine Kannapolis Strategic Plan and maintaining core services.

The property tax rate remained the same for fiscal year 2026 at 55.95 cents per \$100 valuation. The FY 26 budget was more challenging than originally expected. Property taxes were projected to increase by 6% due to new investment in the community. This projection was, in part, based on the average growth rate of the past seven years (excluding the Cabarrus revaluation years) of 5.72%. The FY 26 budget includes an increase of only 3.72%. The result is a shortfall of approximately \$1 million for the FY 26 budget. Similarly, sales taxes were expected to increase 5% for the FY 26 budget. This projection was also based on several years of prior data and information from the North Carolina League of Municipalities. The sales tax growth rate included in the FY 26 budget is only 1.46% based on receipts to date in the FY 25 budget. This is not unique to Kannapolis. The result is a shortfall of approximately \$500,000 for the FY 26 budget.

Due, in part, to the revenue challenges and the overall sense of caution with the national economy, the FY 26 budget served as a budget reset, which meant the process to develop the budget was based on a trend line of multiple previous years of data. This budget has its foundation built on actual budget usage more than on the method of comparing the previous budget to the proposed budget. As far as expenditures in the General Fund, no new positions, reclassifications, new debt service or new/replacement capital outlay were proposed. The FY 26 budget did include a 5% performance evaluation increase for all full-time employees and an increase of \$1,500/per employee for health insurance related costs.

The FY 26 Water and Sewer Fund budget is \$28,425,016, which represents a 4.43% decrease from the FY 25 budget (\$1,318,797 decrease). Over the past year or so there is little evidence to suggest that the natural growth projected of 2.5% to 3% will be realized in FY 25 into FY 26. The following water and sewer rate increases are recommended for the FY 26 budget, which includes a .25 cent increase in the fixed water rate (went from \$6.95 to \$7.20) and a \$3.06 increase on the fixed sewer rate (went from \$5.24 to \$8.30). These increases are projected to generate an estimated \$1,047,847 in new revenue (\$457,598 for water and \$692,111 for sewer). These rate increases were necessary to keep up with on-going operations and the City's financial obligations to the Water and Sewer Authority of Cabarrus County (WSACC) for the fixed costs of the Rocky River Regional Wastewater Treatment Plant (RRRWWTP) expansion debt service on the Kannapolis Lake Dam Spillway Replacement Project (estimated at \$8.44 million). Much like that of the General Fund, no new capital outlay or positions were proposed in the FY 26 budget. There is an 11.1% increase (\$651,584 actual increase) in the Wastewater Treatment budget to support new flow in the system and the expansion of the Rocky River Regional Wastewater Treatment Plant from 26.5 MGD to 34 MGD.

The FY 26 Stormwater Fund budget is \$3,637,348, which represents a 3.00% decrease (\$112,652 actual decrease) from the FY 25 adopted budget of \$3,750,000. Charges and fee revenue is projected to increase by \$167,348 for FY 26 reflecting new development expected to be completed over the next 14 months. No fee increase is proposed for FY 26 (the ninth consecutive year with no increased fees). The decrease in this fund is a result of interest earnings decreasing from \$350,000 to \$70,000. The Stormwater Fund continues to be fully self-sustaining. There is no new proposed debt service in this fund, capital improvement projects or new positions or replacement of capital outlay.

The FY 26 Environmental Fund budget totals \$7,681,862, which is an increase of 14.64% (\$1,413,172 actual) over the FY 25 adopted budget of \$6,700,690. A \$5.00 per month Environmental Fee increase was adopted for FY 26 (representing an increase of \$1,404,193 in new revenues). This increase has been planned for several years in a longstanding effort for the Environmental Fund to be self-sustaining exclusively with user fees. For FY 26, it is also necessary to address several projected operational increases such as: \$362,830 increase in solid waste collection costs through the City's contractor, Waste Collections, \$160,000 increase in the cost of recycling material disposal and \$650,000 increase in landfill costs. Much like the other funds, no new personnel or capital was included in the FY 26 Environmental Fund budget.

The FY 26 Insurance and Risk Fund budget is \$7,618,904. This represents a 12.69% increase (\$857,820 actual) over the FY 25 adopted budget. FY 25 was the second year of this new internal service fund to manage the City's health-related expenses for all active and retired employees on the plan as well as City workers' compensation expenses. The major increases in the FY 26 budget are: \$400,000 to operate the Employee Health Clinic with Atrium Health for the onsite health clinic (increase of \$110,000 in FY 26) and \$3,265,904 for employee Medical Insurance Claims (an increase of \$631,500 in FY 26), which is an estimate based on trends forecasted from the City's broker. The City's contribution to HSA and HRA also hits this fund at \$2,200 for HSA and \$2,000 for HRA as well as \$550,000 for Workers Compensation Claims (increase of \$229,120 from FY 25). This estimate is based on trends forecasted from the City's administrative consultant.

The Transit Fund was established by the City to set aside funds for payments for the City's share of expenses related to the new Concord-Kannapolis Local Public Transportation System. The FY 26 Transit Fund budget is \$1,402,698, which is a 13.51% decrease over the FY 25 adopted budget of \$1,621,823 (\$219,125 actual decrease). This amount is Kannapolis' local contribution to the larger Concord-Kannapolis Transit System Budget of approximately \$6.86 million for FY 26. The other large funding sources for the system include approximately \$3 million in Federal and State funding and approximately \$2 million from the City of Concord. Farebox revenue only accounts for about 4% of the total revenue stream (\$248,597 projected for FY 26). Transit is a contracted service as such there are no direct (City owned or managed) capital, personnel, or operating expenditures. The Transit System staff function as a department of the City of Concord as the lead agency. This year, there was a deeper look into some of the Transit operating expenditures, which led to the overall decrease in the budget.

The Separation Pay Fund was set up by the City to set aside funds for future payments to qualified employees who are eligible for retirement and have retired and have reached age 55 but have not reached age 62. For law enforcement officers, the State has made this separation allowance mandatory by Article 12D of the North Carolina General Statute 143. The City has chosen to make this benefit available to all City employees. This benefit is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the employee for each year of creditable service. The Separation Allowance is reported in the City's annual financial report as a Pension Trust Fund. The FY 26 Separation Pay Fund budget is \$721,500, which represents a 20.25% increase (\$121,500 actual) from the FY 25 adopted budget. From FY 25 to FY 26, three (3) former employees are no longer eligible to receive special separation pay because they are over age 62. Five (5) new employees are projected to roll on for FY 26. Thirty-one (31) former employees currently receive separation pay benefits.

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

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, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 45,683,336	\$ 17,666,705	\$ 63,350,041
Taxes receivable	93,827	-	93,827
Accounts receivable, net	1,094,779	5,563,201	6,657,980
Lease receivable, net	379,504	-	379,504
Due from other governments	7,146,802	268,203	7,415,005
Cash and cash equivalents, restricted	6,314,499	4,402,869	10,717,368
Prepaid items	326,130	-	326,130
Total current assets	<u>61,038,877</u>	<u>27,900,978</u>	<u>88,939,855</u>
Non-current assets:			
Lease receivable, non-current	18,646,487	-	18,646,487
Capital assets:			
Capital assets not being depreciated/amortized	30,750,490	12,563,539	43,314,029
Capital assets, net of accumulated depreciation/ amortization	231,983,818	129,222,529	361,206,347
Intangible assets, net of accumulated amortization	-	1,301,994	1,301,994
Total capital assets, net	<u>262,734,308</u>	<u>143,088,062</u>	<u>405,822,370</u>
Total non-current assets	<u>281,380,795</u>	<u>143,088,062</u>	<u>424,468,857</u>
Total assets	<u>342,419,672</u>	<u>170,989,040</u>	<u>513,408,712</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Deferred Outflows of Resources:			
Deferred charge on refunding	-	1,011,487	1,011,487
OPEB deferrals	10,129,456	2,376,045	12,505,501
Pension deferrals	11,803,929	2,768,823	14,572,752
Total deferred outflows of resources	21,933,385	6,156,355	28,089,740
Liabilities:			
Current liabilities:			
Accounts payable	5,974,880	2,112,017	8,086,897
Accrued expenses	1,761,760	86,627	1,848,387
Accrued interest	880,393	401,915	1,282,308
Advance from grantor	-	255,408	255,408
Due to other governments	439,790	-	439,790
Current portion of compensated absences	6,064,684	1,059,722	7,124,406
Current portion of total pension liability - SSA	251,193	58,922	310,115
Current portion of total OPEB liability	601,866	148,386	750,252
Current maturities of long-term debt	10,848,779	3,478,262	14,327,041
Liabilities to be paid from restricted assets	-	505,914	505,914
Total current liabilities	26,823,345	8,107,173	34,930,518

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Non-current liabilities:			
Net pension liability - LGERS	17,263,988	4,049,577	21,313,565
Total pension liability - SSA	9,796,531	2,297,950	12,094,481
Total OPEB liability	23,472,756	5,787,039	29,259,795
Non-current compensated absences	2,199,740	382,967	2,582,707
Long-term debt	<u>82,575,710</u>	<u>48,815,019</u>	<u>131,390,729</u>
Total non-current liabilities	<u>135,308,725</u>	<u>61,332,552</u>	<u>196,641,277</u>
 Total liabilities	 <u>162,132,070</u>	 <u>69,439,725</u>	 <u>231,571,795</u>
 Deferred Inflows of Resources:			
Leases	17,453,491	-	17,453,491
OPEB deferrals	35,217,915	8,260,992	43,478,907
Pension deferrals	<u>1,151,882</u>	<u>270,197</u>	<u>1,422,079</u>
Total deferred inflows of resources	<u>53,823,288</u>	<u>8,531,189</u>	<u>62,354,477</u>
 Net Position:			
Net investment in capital assets	171,500,777	95,447,815	266,948,592
Restricted - stabilization by state statute	5,417,547	-	5,417,547
Restricted - streets	2,285,223	-	2,285,223
Restricted - community development	2,096,543	-	2,096,543
Restricted - public safety	347,008	-	347,008
Unrestricted	<u>(33,249,399)</u>	<u>3,726,666</u>	<u>(29,522,733)</u>
 Total net position	 <u>\$ 148,397,699</u>	 <u>\$ 99,174,481</u>	 <u>\$ 247,572,180</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, 2025

	Program Revenues				Net (Expense) Revenue and Changes in Net Position							
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total					
					Governmental Activities	Business-Type Activities						
Functions/Programs												
Primary Government:												
Governmental Activities:												
General government	\$ 15,467,904	\$ 1,991,560	\$ 1,238,982	\$ 2,573,762	\$ (9,663,600)	\$ -	\$ (9,663,600)					
Public safety	27,070,302	323,925	69,229	-	(26,677,148)	-	(26,677,148)					
Public works	9,922,324	-	-	1,991,110	(7,931,214)	-	(7,931,214)					
Community development	7,662,100	220,949	91,706	495,470	(6,853,975)	-	(6,853,975)					
Parks and recreation	9,788,240	2,124,182	-	167,432	(7,496,626)	-	(7,496,626)					
Interest on long-term debt	3,430,920	-	-	-	(3,430,920)	-	(3,430,920)					
Total governmental activities	<u>73,341,790</u>	<u>4,660,616</u>	<u>1,399,917</u>	<u>5,227,774</u>	<u>(62,053,483)</u>	<u>-</u>	<u>(62,053,483)</u>					
Business-Type Activities:												
Water and sewer	26,100,039	26,650,913	-	3,166,743	-	3,717,617	3,717,617					
Stormwater	3,059,776	3,531,309	83,800	-	-	555,333	555,333					
Environmental services	6,991,239	4,504,825	-	-	-	(2,486,414)	(2,486,414)					
Total business-type activities	<u>36,151,054</u>	<u>34,687,047</u>	<u>83,800</u>	<u>3,166,743</u>	<u>-</u>	<u>1,786,536</u>	<u>1,786,536</u>					
Total primary government	<u>\$ 109,492,844</u>	<u>\$ 39,347,663</u>	<u>\$ 1,483,717</u>	<u>\$ 8,394,517</u>	<u>\$ (62,053,483)</u>	<u>1,786,536</u>	<u>(60,266,947)</u>					
General Revenues:												
Taxes:												
Ad valorem taxes				50,541,223	-	50,541,223						
Sales tax				19,161,014	-	19,161,014						
Other taxes and licenses				2,078,616	-	2,078,616						
Franchise tax				4,441,713	-	4,441,713						
Unrestricted intergovernmental revenues				240,206	-	240,206						
Investment earnings				2,148,764	972,594	3,121,358						
Total general revenues, not including transfers				<u>78,611,536</u>	<u>972,594</u>	<u>79,584,130</u>						
Transfers				<u>(3,410,440)</u>	<u>3,410,440</u>	<u>-</u>						
Total general revenues and transfers				<u>75,201,096</u>	<u>4,383,034</u>	<u>79,584,130</u>						
Change in net position				<u>13,147,613</u>	<u>6,169,570</u>	<u>19,317,183</u>						
Net Position:												
Beginning of year - July 1				140,821,346	93,878,439	234,699,785						
Correction of an error				(5,571,260)	(873,528)	(6,444,788)						
Beginning of year - July 1, as restated				<u>135,250,086</u>	<u>93,004,911</u>	<u>228,254,997</u>						
End of year - June 30				<u>\$ 148,397,699</u>	<u>\$ 99,174,481</u>	<u>\$ 247,572,180</u>						

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

CITY OF KANNAPOLIS, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2025

	Major Fund	Nonmajor Funds		Total Governmental Funds
		Other Governmental Funds		
		General Fund		
Assets:				
Cash and cash equivalents	\$ 37,879,866	\$ 5,523,988	\$ 43,403,854	
Taxes receivable	93,827	-	93,827	
Accounts receivable	818,541	-	818,541	
Lease receivable	19,025,991	-	19,025,991	
Long-term receivable	-	276,238	276,238	
Due from other governments	6,907,677	239,072	7,146,749	
Cash and cash equivalents - restricted	4,880,267	1,434,232	6,314,499	
Prepaid items	236,441	10,000	246,441	
Total assets	\$ 69,842,610	\$ 7,483,530	\$ 77,326,140	
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ 5,055,630	\$ 70,811	\$ 5,126,441	
Accrued liabilities	1,761,760	-	1,761,760	
Due to other governments	-	439,790	439,790	
Total liabilities	6,817,390	510,601	7,327,991	

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

CITY OF KANNAPOLIS, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2025

	Major Fund	Nonmajor Funds	Total Governmental Funds
	General Fund	Other Governmental Funds	
Deferred Inflows of Resources:			
Leases	17,453,491	-	17,453,491
Property taxes receivable	93,827	-	93,827
Other unavailable revenue	2,823,981	-	2,823,981
Total deferred inflows of resources	20,371,299	-	20,371,299
Fund Balances:			
Non-spendable:			
Prepaid items	236,441	10,000	246,441
Leases	1,572,500	-	1,572,500
Restricted:			
Stabilization by state statute	4,902,237	515,310	5,417,547
Restricted for community development	-	2,096,543	2,096,543
Restricted for streets	2,285,223	-	2,285,223
Restricted for public safety	2,537,966	-	2,537,966
Committed	505,716	4,351,076	4,856,792
Assigned:			
Subsequent year's expenditures	5,774,015	-	5,774,015
Unassigned	24,839,823	-	24,839,823
Total fund balances	42,653,921	6,972,929	49,626,850
Total liabilities, deferred inflows of resources, and fund balances	\$ 69,842,610	\$ 7,483,530	\$ 77,326,140

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

CITY OF KANNAPOLIS, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2025

	Total	Governmental	Funds
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Total fund balance - governmental funds	\$ 49,626,850		
Capital assets, net of accumulated depreciation and amortization, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	262,734,308		
The assets and liabilities of internal service funds are included in the State of Net Position.	1,510,785		
Net pension liability - LGERS	(17,263,988)		
Total pension liability - SSA	(10,047,724)		
Total OPEB liability	(24,074,622)		
Deferred outflows - pension	11,803,929		
Deferred outflows - OPEB	10,129,456		
Deferred inflows - pension	(1,151,882)		
Deferred inflows - OPEB	(35,217,915)		
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.	2,917,808		

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

CITY OF KANNAPOLIS, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2025

Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.

	Total Governmental Funds
Long-term debt	(93,424,489)
Accrued interest	(880,393)
Compensated absences	<u>(8,264,424)</u>
Net position of governmental activities	<u>\$ 148,397,699</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, 2025**

Revenues:

Ad valorem taxes
Other taxes and licenses
Unrestricted intergovernmental
Restricted intergovernmental
Sales and services
Investment earnings
Miscellaneous
Total revenues

	Major Fund	Nonmajor Funds		Total Governmental Funds
		General Fund	Other Governmental Funds	
Ad valorem taxes	\$ 50,478,279	\$ -	\$ 50,478,279	
Other taxes and licenses	18,997,620	444,725	19,442,345	
Unrestricted intergovernmental	4,069,832	-	4,069,832	
Restricted intergovernmental	3,445,356	662,902	4,108,258	
Sales and services	4,462,355	-	4,462,355	
Investment earnings	1,778,074	295,473	2,073,547	
Miscellaneous	1,285,933	-	1,285,933	
Total revenues	<u>84,517,449</u>	<u>1,403,100</u>	<u>85,920,549</u>	

Expenditures:

Current:

General government
Public safety
Public works
Community development
Capital outlay
Parks and recreation

General government	16,364,241	-	16,364,241
Public safety	32,325,086	-	32,325,086
Public works	7,570,870	-	7,570,870
Community development	5,488,581	2,187,960	7,676,541
Capital outlay	-	1,600,423	1,600,423
Parks and recreation	9,643,701	-	9,643,701

Debt service:

Principal retirement
Interest and fees
Total expenditures

Principal retirement	10,696,335	-	10,696,335
Interest and fees	<u>3,675,509</u>	<u>-</u>	<u>3,675,509</u>
Total expenditures	<u>85,764,323</u>	<u>3,788,383</u>	<u>89,552,706</u>

Revenues over (under) expenditures

(1,246,874)	(2,385,283)	(3,632,157)
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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, 2025**

	Major Fund	Nonmajor Funds		Total Governmental Funds
		General Fund	Other Governmental Funds	
Other Financing Sources (Uses):				
Transfers in	-		5,551,469	5,551,469
Transfers (out)	(9,196,909)		-	(9,196,909)
Subscription liability issued	2,166,000		-	2,166,000
Total other financing sources (uses)	(7,030,909)		5,551,469	(1,479,440)
Net change in fund balances	(8,277,783)		3,166,186	(5,111,597)
Fund Balances:				
Beginning of year - July 1	50,931,704		4,152,760	55,084,464
Restatement	-		(346,017)	(346,017)
Beginning of year - as restated	50,931,704		3,806,743	54,738,447
End of year - June 30	\$ 42,653,921		\$ 6,972,929	\$ 49,626,850

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, 2025

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)	\$ (5,111,597)
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/amortization expense.	8,408,164
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(7,318,049)
Pension expense - LGERS	(1,260,694)
Pension expense - SSA	(756,074)
OPEB plan (expense) income	6,458,164
In the Statement of Activities, only the gain or loss on the reduction of capital assets is reported; whereas, in governmental funds, the proceeds of the sale increase the financial resources. Thus, the changes in net position differs from the change in fund balance by the cost of the assets less any depreciation or amortization.	(250,223)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	2,670,577
Expenses related to accrued interest, and compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(448,919)
OPEB expense	

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, 2025**

Contribution of assets not reported in the fund financial statements	1,233,500
Governmental funds report the effect of bond premiums when the debt is first issued, whereas, these amounts are deferred and amortized in the Statement of Activities.	121,223
Proceeds from issuance of debt, and the related premium, are reported as revenues in the governmental funds statement. However, in the Statement of Activities, it is not a revenue, rather it is an increase in liabilities.	(2,166,000)
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.	10,696,335
Net revenue of internal service funds determined to be governmental-type	<u>871,206</u>
Total change in net position of governmental activities (Exhibit B)	<u>\$ 13,147,613</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, 2025

	Budgeted Amounts			Variance with Final Budget Over/Under	
	Original	Final	Actual		
Revenues:					
Ad valorem taxes	\$ 49,599,642	\$ 49,599,642	\$ 50,478,279	\$ 878,637	
Other taxes and licenses	18,245,863	18,245,863	18,997,620	751,757	
Unrestricted intergovernmental	3,524,527	3,524,527	4,069,832	545,305	
Restricted intergovernmental	3,120,828	4,148,698	3,445,356	(703,342)	
Sales and services	4,392,262	4,393,554	4,462,355	68,801	
Investment earnings	1,400,000	1,400,000	1,778,074	378,074	
Miscellaneous	720,000	1,250,631	1,285,933	35,302	
Total revenues	81,003,122	82,562,915	84,517,449	1,954,534	
Expenditures:					
Current:					
General government	17,281,907	21,205,500	16,364,241	4,841,259	
Public safety	25,958,779	34,045,660	32,325,086	1,720,574	
Public works	6,079,494	12,087,111	7,570,870	4,516,241	
Community development	1,339,115	1,547,633	1,488,581	59,052	
Parks and recreation	9,217,946	12,481,011	9,643,701	2,837,310	
Debt service:					
Principal retirement	10,602,153	10,696,335	10,696,335	-	
Interest and fees	3,573,703	3,675,533	3,675,509	24	
Total expenditures	74,053,097	95,738,783	81,764,323	13,974,460	
Revenues over (under) expenditures	6,950,025	(13,175,868)	2,753,126	15,928,994	

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, 2025

	Budgeted Amounts			Variance with Final Budget Over/Under
	Original	Final	Actual	
Other Financing Sources (Uses):				
Transfers (out)	(6,950,025)	(10,759,617)	(9,196,909)	1,562,708
Installment financing issued	-	2,166,000	2,166,000	-
Appropriated fund balance	-	21,769,485	-	(21,769,485)
Total other financing sources (uses)	(6,950,025)	13,175,868	(7,030,909)	(20,206,777)
Net change in fund balance	\$ -	\$ -	(4,277,783)	\$ (4,277,783)
Reconciliation from Budgetary Basis of Accounting to Modified Accrual Basis:				
Settlement			(4,000,000)	
Net change in fund balance modified accrual			(8,277,783)	
Fund Balance:				
Beginning of year - July 1			50,931,704	
End of year - June 30			\$ 42,653,921	

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2025

	Business-Type Activities				Governmental Activities	
	Major Enterprise Funds			Total Business-Type Activities	Internal Service Funds	
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund			
Assets:						
Current assets:						
Cash and investments	\$ 13,346,645	\$ 2,301,138	\$ 2,018,922	\$ 17,666,705	\$ 2,279,482	
Accounts receivable, net	3,996,425	619,815	946,961	5,563,201	-	
Due from other governments	183,052	32,169	52,982	268,203	53	
Cash and investments, restricted	4,402,869	-	-	4,402,869	-	
Prepaid assets	-	-	-	-	79,689	
Total current assets	21,928,991	2,953,122	3,018,865	27,900,978	2,359,224	
Capital assets:						
Non-depreciable assets	12,563,539	-	-	12,563,539	-	
Other capital assets net of depreciation	118,086,573	10,405,202	730,754	129,222,529	-	
Intangible assets, net of accumulated amortization	1,301,994	-	-	1,301,994	-	
Total capital assets	131,952,106	10,405,202	730,754	143,088,062	-	
Total non-current assets	131,952,106	10,405,202	730,754	143,088,062	-	
Total assets	153,881,097	13,358,324	3,749,619	170,989,040	2,359,224	
Deferred Outflows of Resources:						
Charge on refunding	1,011,487	-	-	1,011,487	-	
OPEB deferrals	1,625,715	625,275	125,055	2,376,045	-	
Pension deferrals	1,894,458	728,639	145,726	2,768,823	-	
Total deferred outflows of resources	4,531,660	1,353,914	270,781	6,156,355	-	
Liabilities:						
Current liabilities:						
Accounts payable	1,469,749	185,606	456,662	2,112,017	848,439	
Accrued expenses	65,764	14,390	6,473	86,627	-	
Accrued interest	360,698	41,217	-	401,915	-	
Unearned revenue	255,408	-	-	255,408	-	
Current portion of compensated absences	804,423	172,681	82,618	1,059,722	-	
Current portion of total pension liability - SSA	40,315	15,506	3,101	58,922	-	
Current portion of total OPEB liability	103,371	31,675	13,340	148,386	-	
Current maturities of long-term debt	3,110,700	367,562	-	3,478,262	-	
Liabilities to be paid from restricted assets	505,914	-	-	505,914	-	
Total current liabilities	6,716,342	828,637	562,194	8,107,173	848,439	

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2025

	Business-Type Activities				Governmental Activities
	Major Enterprise Funds			Total Business-Type Activities	Internal Service Funds
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund		
Non-current liabilities:					
Net pension liability - LGERS	2,770,763	1,065,678	213,136	4,049,577	-
Total pension liability - SSA	1,572,281	604,725	120,944	2,297,950	-
Total OPEB liability	4,031,452	1,235,311	520,276	5,787,039	-
Compensated absences	291,075	62,476	29,416	382,967	-
Long-term debt	44,615,026	4,199,993	-	48,815,019	-
Total non-current liabilities	53,280,597	7,168,183	883,772	61,332,552	-
Total liabilities	59,996,939	7,996,820	1,445,966	69,439,725	848,439
Deferred Inflows of Resources:					
OPEB deferrals	5,652,258	2,173,945	434,789	8,260,992	-
Pension deferrals	184,871	71,104	14,222	270,197	-
Total deferred inflows of resources	5,837,129	2,245,049	449,011	8,531,189	-
Net Position:					
Net investment in capital assets	88,879,414	5,837,647	730,754	95,447,815	-
Unrestricted	3,699,275	(1,367,278)	1,394,669	3,726,666	1,510,785
Total net position	<u>\$ 92,578,689</u>	<u>\$ 4,470,369</u>	<u>\$ 2,125,423</u>	<u>\$ 99,174,481</u>	<u>\$ 1,510,785</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2025**

	Business-Type Activities				Governmental Activities	
	Major Enterprise Funds			Total Business-Type Activities	Internal Service Funds	
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund			
Operating Revenues:						
Charges for services	\$ 23,237,354	\$ 3,530,713	\$ 4,448,951	\$ 31,217,018	\$ 6,854,964	
Water and sewer taps	2,766,234	-	-	2,766,234	-	
Other operating revenues	647,325	596	55,874	703,795	-	
Total operating revenues	<u>26,650,913</u>	<u>3,531,309</u>	<u>4,504,825</u>	<u>34,687,047</u>	<u>6,854,964</u>	
Operating Expenses:						
Administration	1,706,182	-	-	1,706,182	-	
Distribution	6,115,977	-	-	6,115,977	-	
Filter plant	4,974,189	-	-	4,974,189	-	
General services	1,845,182	-	-	1,845,182	-	
Sewage treatment	6,100,624	-	-	6,100,624	-	
Stormwater	-	2,558,015	-	2,558,015	-	
Environmental services	-	-	6,844,047	6,844,047	-	
Health insurance	-	-	-	-	5,432,819	
Workers' compensation	-	-	-	-	861,156	
Depreciation and amortization	3,942,715	326,431	147,192	4,416,338	-	
Total operating expenses	<u>24,684,869</u>	<u>2,884,446</u>	<u>6,991,239</u>	<u>34,560,554</u>	<u>6,293,975</u>	
Operating income (loss)	<u>1,966,044</u>	<u>646,863</u>	<u>(2,486,414)</u>	<u>126,493</u>	<u>560,989</u>	
Non-Operating Revenues (Expenses):						
Grant revenue	-	83,800	-	83,800	-	
Insurance proceeds	-	-	-	-	-	
Interest earned on investments	773,758	84,412	114,424	972,594	75,217	
Interest and fees on long-term debt	(1,415,170)	(175,330)	-	(1,590,500)	-	
Total non-operating revenues (expenses)	<u>(641,412)</u>	<u>(7,118)</u>	<u>114,424</u>	<u>(534,106)</u>	<u>75,217</u>	

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

CITY OF KANNAPOLIS, NORTH CAROLINA

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2025**

	Business-Type Activities				Governmental Activities
	Major Enterprise Funds			Total Business-Type Activities	Internal Service Funds
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund		
Income (loss) before capital contributions and transfers	1,324,632	639,745	(2,371,990)	(407,613)	636,206
Capital Contributions	3,166,743	-	-	3,166,743	-
Transfers:					
Transfers in	468,750	-	2,941,690	3,410,440	235,000
Change in net position	4,960,125	639,745	569,700	6,169,570	871,206
Net Position:					
Beginning of year - July 1	88,280,473	3,980,621	1,617,345	93,878,439	639,579
Restatement	(661,909)	(149,997)	(61,622)	(873,528)	-
Beginning of year - July 1, as restated	87,618,564	3,830,624	1,555,723	93,004,911	639,579
End of year - June 30	<u>\$ 92,578,689</u>	<u>\$ 4,470,369</u>	<u>\$ 2,125,423</u>	<u>\$ 99,174,481</u>	<u>\$ 1,510,785</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2025

	Business-Type Activities				Governmental Activities	
	Major Enterprise Funds			Total Business-Type Activities	Internal Service Funds	
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund			
Cash Flows from Operating Activities:						
Cash received from customers	\$ 26,475,025	\$ 3,652,002	\$ 4,461,192	\$ 34,588,219	\$ 7,030,258	
Cash paid for goods and services	(13,595,625)	(1,139,503)	(6,268,807)	(21,003,935)	(6,129,829)	
Cash paid to employees	(7,009,719)	(1,624,581)	(719,130)	(9,353,430)	-	
Net cash provided (used) by operating activities	<u>5,869,681</u>	<u>887,918</u>	<u>(2,526,745)</u>	<u>4,230,854</u>	<u>900,429</u>	
Cash Flows from Non-Capital Financing Activities:						
Due to other funds	-	-	-	-	-	(50)
Transfers from other funds	468,750	-	2,941,690	3,410,440	235,000	
Net cash provided (used) by non-capital financing activities	<u>468,750</u>	<u>-</u>	<u>2,941,690</u>	<u>3,410,440</u>	<u>234,950</u>	
Cash Flows from Capital and Related Financing Activities:						
Acquisition of capital assets and capital projects	(2,761,212)	(163,413)	(430,513)	(3,355,138)	-	
Principal paid on long-term debt	(4,451,703)	(367,562)	-	(4,819,265)	-	
Capital grants	-	83,800	-	83,800	-	
Interest and fees paid on long-term debt	(1,441,004)	(178,540)	-	(1,619,544)	-	
Net cash provided (used) by capital and related financing activities	<u>(8,653,919)</u>	<u>(625,715)</u>	<u>(430,513)</u>	<u>(9,710,147)</u>	<u>-</u>	
Cash Flows from Investing Activities:						
Interest on investments	<u>773,762</u>	<u>84,412</u>	<u>114,424</u>	<u>972,598</u>	<u>75,217</u>	
Net increase (decrease) in cash and cash equivalents	(1,541,726)	346,615	98,856	(1,096,255)	1,210,596	
Cash and Cash Equivalents:						
Beginning of year - July 1	<u>19,291,240</u>	<u>1,954,523</u>	<u>1,920,066</u>	<u>23,165,829</u>	<u>1,068,886</u>	
End of year - June 30	<u>\$ 17,749,514</u>	<u>\$ 2,301,138</u>	<u>\$ 2,018,922</u>	<u>\$ 22,069,574</u>	<u>\$ 2,279,482</u>	

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2025

Reconciliation of Operating Income (Loss)**to Provided (Used) By Operating Activities:**

	Business-Type Activities				Governmental Activities
	Major Enterprise Funds			Total Business-Type Activities	Internal Service Funds
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund		
Operating income (loss)	\$ 1,966,044	\$ 646,863	\$ (2,486,414)	\$ 126,493	\$ 560,989
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	3,942,715	326,431	147,192	4,416,338	-
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(196,818)	120,693	(43,633)	(119,758)	175,294
(Increase) decrease in prepaids	-	-	-	-	(79,689)
(Increase) decrease in deferred charge on refunding	255,408	-	-	255,408	-
Increase (decrease) in total pension liability	264,801	101,847	20,369	387,017	-
Increase (decrease) in net pension liability	201,553	77,519	15,504	294,576	-
Increase (decrease) in deferred inflows of resources for pensions	(68,343)	(26,285)	(5,258)	(99,886)	-
(Increase) decrease in deferred outflows of resources for pensions	(74,331)	(28,591)	(5,717)	(108,639)	-
Increase (decrease) in deferred inflows for OPEB	1,788,876	688,029	137,606	2,614,511	-
(Increase) decrease in deferred outflows for OPEB	424,363	163,217	32,643	620,223	-
Increase (decrease) in accounts payable and accrued liabilities	594,218	68,093	(89,058)	573,253	243,835
Increase (decrease) in other post-employment benefits	(3,249,735)	(1,249,898)	(249,979)	(4,749,612)	-
Increase (decrease) in customer deposits	20,930	-	-	20,930	-
Net cash provided (used) by operating activities	\$ 5,869,681	\$ 887,918	\$ (2,526,745)	\$ 4,230,854	\$ 900,429

Summary of Non-Cash Activities:

Capital asset contributions	\$ 3,166,743	\$ -	\$ -	\$ 3,166,743	\$ -
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The accompanying notes are an integral part of the financial statements.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

1. Summary of Significant Accounting Policies

The accounting policies of the City of Kannapolis (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

B. Basis of Presentation – Fund Accounting

Government-Wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities except for the interfund services provided and used which are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties.

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

Fund Financial Statements. The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The City has no fiduciary funds to report. 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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

The City reports the following major governmental fund:

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.

The City reports the following nonmajor governmental funds:

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

Transit Tax Fund. This fund is used to account for the transit system for the City.

General Fund Multi-Year Fund. This fund is used to account for the design, planning and construction of various projects related to the Kannapolis Strategic Plan.

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

Midway Revitalization Efforts Fund. This fund is used to account for the planning and design for the Midway Revitalization Project.

Eastside Park Fund. This fund is used to account for the planning and design for Eastside Park using debt and non-debt sources.

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

Cultural Arts Facility/History Museum Fund. This fund is used to account for funding a cultural arts / facility / history museum.

Downtown Economic Development Fund. This fund is used to account for downtown economic development efforts specifically related to Block 6.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Western Cabarrus Fire Protection. This fund is used to account for startup costs and potential fire station renovation costs to establish fire protection in the areas of Western Cabarrus County.

Fire Station Improvements. This fund is used to account for fire station improvements.

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

The City reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the City's water and sewer operations. The City maintains one separate water and sewer capital project fund for accounting purposes: Revenue Bonds 2020 Fund. For financial reporting purposes, this fund has been consolidated into the Water and Sewer Fund.

Stormwater Fund. This fund is used to account for the City's stormwater operations. The City maintains a separate stormwater capital project fund for accounting purposes: Downtown Stormwater Fund. For financial reporting purposes, this fund has been consolidated into the Stormwater Fund.

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

The City reports the following fund type:

Internal Service Fund. This fund is used to account for the accumulation of premiums and allocation of costs associated with claims for employees, retirees and family members included on the self-insured health insurance plan and active employees covered by the workers' compensation policy. The Health Insurance and Risk Fund is legally budgeted under North Carolina General Statutes; however, for statement presentation it is included in governmental activities in the Statement of Net Position. The City has one Internal Service Fund.

C. Measurement Focus and Basis of Accounting

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

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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 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/amortization 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 leases and IT subscriptions 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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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.

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. The City's Internal Service Fund operates under a financial plan that was adopted by the governing board at the time the City's budget ordinance was approved. 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) authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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. The NCCMT-Government Portfolio is a SEC-registered money market mutual fund that is certified by the Local Government Commission under the provisions of G.S. 159-30(c)(8) and the North Carolina Administrative Code, Title 20, Chapter 03, Section .7000. The Government Portfolio is a 2a7 fund that invests in treasuries, government agencies, and repurchase agreements collateralized by treasuries. It is rated AAAm by S&P and AAAmf by Moody's Investor Services and reported at fair value.

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 required debt service reserve is classified as restricted assets because the cash is placed with an escrow agent in which the purpose can only be used to repay debt at maturity. The federal asset forfeiture funds are restricted assets for equitable sharing with participating law enforcement agencies. Customer deposits and room deposits/upset bid 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. The unexpended debt proceeds in the enterprise are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

General Fund:

Federal asset forfeiture funds	\$ 347,008
Room deposits/upset bid deposits	57,078
Powell Bill	2,285,223
Bank of America loan proceeds	2,190,958
Total	<u>4,880,267</u>

Other Governmental Funds:

HUD Section 108 - required debt service reserve	<u>1,434,232</u>
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Enterprise Funds:

Unspent debt proceeds - revenue bonds	3,641,547
Customer deposits	505,914
Unearned revenue	255,408
Total	<u>4,402,869</u>

Total restricted cash	<u>\$ 10,717,368</u>
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Ad Valorem Taxes Receivable

In accordance with state law (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2024. 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.

Leases Receivable

The City's leases receivable are measured at the present value of lease payments expected to be received during the lease term. Under the lease agreements, the City may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payment is received.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

A deferred inflow of resources is recorded for the lease. The deferred inflows of resources are recorded at the initiation of each lease in an amount equal to the initial recording of the lease receivable. The deferred inflows of resources are amortized on a straight-line basis over the term of each lease.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and are expensed as the items are used. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$250,000 for general infrastructure and \$5,000 for other capital asset classifications. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are reported at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The City has elected not to capitalize monuments and works of art that are held for public exhibition. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The City's capital assets also include certain right-to-use lease assets. The right-to-use assets arise in association with agreements where the City reports a lease (only applies when the City is the lessee) or agreements where the City reports an Information Technology (IT) Subscription in accordance with the requirements of GASB 87 and GASB 96, respectively.

The right-to-use lease assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets are amortized on a straight-line basis over the life of the related lease.

The right-to-use subscription assets are initially measured at an amount equal to the initial measurement of the subscription liability plus payments made to the SBITA vendor before commencement of the subscription term, plus capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The right-to-use subscription assets are amortized on a straight-line basis over the life of the related SBITA.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

Assets	Estimated Useful Lives
Buildings	50 years
Improvements	25 years
Plants and distribution systems	50 years
Infrastructure	50 years
Vehicles and service equipment	5 years
Furniture and equipment	7 years

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represent a consumption of net assets that applies to future periods and so will not be recognized as an expense or expenditure until then. The City has three items that meet this criteria deferred charge on refunding, pension and OPEB related deferrals. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represent an acquisition of net assets that applies to future periods and so will not be recognized as revenue until then. The City has several items that meet the criteria for this category – property taxes receivable, leases, other unavailable revenues, and pension and OPEB related deferrals.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or the proprietary fund type Statement of Net Position.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

Compensated Absences

The City's vacation policy allows for an unlimited accumulation of earned leave during the calendar year with a maximum of 240 hours being carried over to January 1. 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 policy permits employees to accumulate earned but unused sick leave. All sick leave lapses when employees leave the employment of the City of Kannapolis and, upon separation from service, no monetary obligation exists. However, a liability for estimated value of sick leave time that will be used by employees as time off is included in the liability for compensated absences.

Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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.

Leases – portion of fund balance that is not an available resource because it represents the year-end balance of the lease receivable in excess of the deferred inflow of resources for the lease receivable, which is not a spendable resource.

Restricted Fund Balance

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

Stabilization by State Statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by state statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by state statute". Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. RSS is included as a component of restricted net position and restricted fund balance on the face of the balance sheet.

Restricted for Community Development – portion of fund balance restricted by revenue source for community development activities. \$1,399,705 in the CDBG Fund is restricted for HUD Section 108 Loan payment. \$696,838 in the Transit Tax Fund is restricted by the revenue source for the development of a transit system for the City.

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Restricted for Public Safety – portion of fund balance restricted by revenue source for public safety related activities such as police and fire, and represents unspent debt proceeds for the purchase of vehicles and equipment.

Restricted fund balance on Exhibit A differs from Exhibit C for unspent proceeds in the governmental funds of \$2,190,958.

Restricted fund balance at June 30, 2025 is as follows:

Purpose	General Fund	Other Governmental Funds
Restricted, All Other:		
Streets	\$ 2,285,223	\$ -
Public safety	2,537,966	-
Community development	-	2,096,543
Total	\$ 4,823,189	\$ 2,096,543

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

Committed for Public Works – portion of fund balance budgeted by the City Council to be used for certain public works expenditures.

Committed for Community Development - portion of fund balance budgeted by the City Council to be used for certain community development expenditures.

Committed for Public Safety – portion of fund balance budgeted by the City Council to be used for certain public safety expenditures.

Committed for Public Parks and Recreation – portion of fund balance budgeted by the City Council to be used for certain parks and recreation expenditures.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Committed fund balance at June 30, 2025 is as follows:

Purpose	General Fund	Other Governmental Funds	
		General Funds	Other Governmental Funds
Community development	\$ -	\$ 1,965,707	
Public works	-	826,775	
Public safety	-	783,924	
Public parks and recreation	-	774,670	
City employee separation	505,716		-
Total	\$ 505,716	\$ 4,351,076	

Assigned Fund Balance

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

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

Unassigned Fund Balance

Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes within the General Fund. Only the General Fund may report a positive unassigned fund balance. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in the governmental funds other than General Fund, if expenditures occurred for specific purposes exceed the amounts that are restricted, committed or assigned to those purposes, it may be necessary to report a negative 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, 2025

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	\$ 42,653,921
Less:	
Prepaid items	(236,441)
Leases	(1,572,500)
Stabilization by state statute	(4,902,237)
Restricted, other	(4,823,189)
Committed	(505,716)
Assigned	(5,774,015)
Available for appropriation	<u>(3,343,968)</u>
Remaining fund balance	<u>\$ 21,495,855</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Defined Benefit Cost Sharing Plan

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

Revenues, Expenditures, and Expenses

Other Resources

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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 under collateralization. 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, 2025, the City's deposits had a carrying amount of \$10,274,375 and a bank balance of \$10,498,872. 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, 2025, the City's had \$20,320 petty cash.

Investments

At June 30, 2025, the City had the following investments and maturities:

<u>Investments by Type</u>	<u>Valuation Measurement</u>	<u>Fair Value</u>	<u>Less Than One Year</u>
	<u>Method</u>		
NC Capital Management Trust - Government Portfolio	Fair Value - Level 1	\$ 63,772,714	\$ 63,772,714

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

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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 has no formal policy on credit risk. The City's investments in the North Carolina Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard and Poor's and AAA-mf Moody's Investors Service as of June 30, 2025.

Receivables

Receivables at the government-wide level at June 30, 2025 were as follows:

	Due from Other Governments			
	Accounts	Taxes	Other Governments	Total
Governmental Activities:				
General	\$ 888,147	\$ 824,559	\$ 6,907,677	\$ 8,620,383
Governmental	276,238	-	239,125	515,363
Total receivables	1,164,385	824,559	7,146,802	9,135,746
Allowance for doubtful accounts	(69,606)	(730,732)	-	(800,338)
Total	\$ 1,094,779	\$ 93,827	\$ 7,146,802	\$ 8,335,408
Business-Type Activities:				
Water and sewer	\$ 5,383,179	\$ -	\$ 183,052	\$ 5,566,231
Stormwater	684,692	-	32,169	716,861
Environmental services	963,180	-	52,982	1,016,162
Allowance for doubtful accounts	(1,467,850)	-	-	(1,467,850)
Total	\$ 5,563,201	\$ -	\$ 268,203	\$ 5,831,404

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

Local option sales tax	\$ 3,935,783
Property taxes	593,965
Grants	328,669
Other	<u>2,556,588</u>
Total	<u>\$ 7,415,005</u>

Lease Receivable

As of June 30, 2025, the City of Kannapolis, North Carolina had 6 active leases. The leases have receipts that range from \$9,978 to \$450,000 and interest rates that range from 0.5140% to 5.4581%. As of June 30, 2025, the total combined value of the lease receivable is \$19,025,991, the total combined value of the short-term lease receivable is \$379,504, and the combined value of the deferred inflow of resources is \$17,453,491. The leases had no variable or other receipts that were not included in the lease receivable.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Principal and Interest Expected to Maturity

Year Ending June 30	Governmental Activities	
	Principal	Interest
2026	\$ 379,504	\$ 526,792
2027	360,480	514,631
2028	398,227	501,883
2029	411,983	488,127
2030	451,456	473,655
2031-2035	2,797,719	2,276,719
2036-2040	3,316,536	1,635,432
2041-2045	3,135,055	1,214,945
2046-2050	3,906,847	768,153
2051-2055	1,691,038	333,962
2056-2060	590,164	234,836
2061-2065	668,023	156,977
2066-2070	756,154	68,846
2071-2073	162,805	2,196
Total	<u>\$ 19,025,991</u>	<u>\$ 9,197,154</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Capital Assets

The following is a summary of changes in the governmental capital assets for the year ended June 30, 2025:

	Balance				Balance
	July 1, 2024	Additions	Retirements	Transfers	June 30, 2025
Capital Assets Not Being Depreciated/Amortized:					
Land	\$ 29,182,461	\$ -	\$ -	\$ -	\$ 29,182,461
Construction in progress	1,353,930	482,969	-	(268,870)	1,568,029
Total capital assets not being depreciated/amortized	<u>30,536,391</u>	<u>482,969</u>	<u>-</u>	<u>(268,870)</u>	<u>30,750,490</u>
Capital Assets Being Depreciated/Amortized:					
Buildings and improvements	131,191,008	2,777,223	(8,900)	-	133,959,331
Other improvements	38,721,435	1,008,751	(119,800)	-	39,610,386
Machinery and equipment	24,326,375	4,139,221	(2,029,409)	78,331	26,514,518
Infrastructure	161,694,202	1,233,500	-	-	162,927,702
Right-to-use leased equipment	3,221,981	-	-	-	3,221,981
Right-to-use subscriptions	56,181	-	-	-	56,181
Total capital assets being depreciated/amortized	<u>359,211,182</u>	<u>9,158,695</u>	<u>(2,158,109)</u>	<u>78,331</u>	<u>366,290,099</u>
Less Accumulated Depreciation/Amortization:					
Building and improvements	15,984,157	1,966,180	(8,900)	-	17,941,437
Other improvements	5,656,335	801,722	-	-	6,458,057
Machinery and equipment	19,868,489	1,443,693	(1,898,986)	(190,539)	19,222,657
Infrastructure	85,667,319	2,371,711	-	-	88,039,030
Right-to-use leased equipment	1,907,184	716,016	-	-	2,623,200
Right-to-use subscriptions	3,173	18,727	-	-	21,900
Total accumulated depreciated/amortization	<u>129,086,657</u>	<u>7,318,049</u>	<u>(1,907,886)</u>	<u>(190,539)</u>	<u>134,306,281</u>
Total capital assets being depreciated/amortized, net		<u>230,124,525</u>			<u>231,983,818</u>
Governmental activities capital assets, net	<u><u>\$ 260,660,916</u></u>				<u><u>\$ 262,734,308</u></u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

General government	\$ 1,151,859
Public safety	1,918,410
Public works	2,491,779
Planning	23,067
Parks and recreation	1,732,934
Total depreciation/amortization expense	<u><u>\$ 7,318,049</u></u>

The following is a summary of changes in the business-type capital assets for the year ended June 30, 2025.

	<u>Balance</u> <u>July 1, 2024</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2025</u>
Water and Sewer Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 839,066	\$ -	\$ -	\$ 839,066
Construction in progress	<u>9,855,460</u>	<u>1,869,013</u>	<u>-</u>	<u>11,724,473</u>
Total non-depreciable capital assets	<u>10,694,526</u>	<u>1,869,013</u>	<u>-</u>	<u>12,563,539</u>
Depreciable Capital Assets:				
Buildings	23,423,662	-	-	23,423,662
Distribution systems	153,686,265	3,209,104	-	156,895,369
Machinery and equipment	<u>7,458,977</u>	<u>962,226</u>	<u>(606,200)</u>	<u>7,815,003</u>
Total depreciable capital assets	<u>184,568,904</u>	<u>4,171,330</u>	<u>(606,200)</u>	<u>188,134,034</u>
Less Accumulated Depreciation:				
Buildings	14,598,916	906,003	-	15,504,919
Distribution systems	46,782,081	2,210,769	-	48,992,850
Machinery and equipment	<u>5,378,171</u>	<u>777,721</u>	<u>(606,200)</u>	<u>5,549,692</u>
Total accumulated depreciation	<u>66,759,168</u>	<u>3,894,493</u>	<u>(606,200)</u>	<u>70,047,461</u>
Total depreciable capital assets, net	<u>117,809,736</u>			<u>118,086,573</u>
Total Water and Sewer Fund capital assets, net	<u>128,504,262</u>			<u>130,650,112</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

	<u>Balance July 1, 2024</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance June 30, 2025</u>
Stormwater Fund:				
Depreciable Capital Assets:				
Machinery and equipment	2,031,820	163,413	-	2,195,233
Infrastructure	<u>14,489,083</u>	-	-	14,489,083
Total depreciable capital assets	<u>16,520,903</u>	<u>163,413</u>	-	16,684,316
Less Accumulated Depreciation:				
Machinery and equipment	1,784,877	87,112	-	1,871,989
Infrastructure	<u>4,167,806</u>	<u>239,319</u>	-	4,407,125
Total accumulated depreciation	<u>5,952,683</u>	<u>326,431</u>	-	6,279,114
Total depreciable capital assets, net	<u>10,568,220</u>	-	-	10,405,202
Total Stormwater Fund capital assets, net	<u>10,568,220</u>	-	-	10,405,202
Environmental Services Fund:				
Depreciable Capital Assets:				
Machinery and equipment	1,640,395	430,513	167,319	2,238,227
Less Accumulated Depreciation:				
Machinery and equipment	1,192,962	147,192	167,319	1,507,473
Total depreciable capital assets, net	<u>447,433</u>			730,754
Total Environmental Services Fund capital assets, net	<u>447,433</u>			730,754
Total business-type capital assets, net	<u>\$ 139,519,915</u>			<u>\$ 141,786,068</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Proprietary Intangible Assets

The intangible assets of the Water and Sewer Fund at June 30, 2025 were as follows:

	Balance		Balance	
	July 1, 2024	Additions	Retirements	June 30, 2025
Intangible Assets:				
Rowan County water rights	\$ 2,411,100	\$ -	\$ -	\$ 2,411,100
Less accumulated amortization	<u>(1,060,884)</u>	<u>(48,222)</u>	<u>-</u>	<u>(1,109,106)</u>
Intangible assets, net	<u><u>\$ 1,350,216</u></u>	<u><u>\$ (48,222)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,301,994</u></u>

Construction Commitments

The City has active construction projects as of June 30, 2025. At year-end, the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment	Total Contract
Kanna Crossing - contract 3 - elevated tank	\$ 2,080,176	\$ 139,757	\$ 2,219,933
Bethpage Road Sidewalk Phase I	219,620	132,353	351,973
Booster Pump Station- Kannapolis Crossing	620,348	26,821	647,169
2nd and 3rd Supplemental agreement for Sidewalk project	-	3,372,355	3,372,355
Asphalt treatment to 23 City Streets	-	256,000	256,000
Downtown Sewer Outfall - Phase II	-	3,723,313	3,723,313
Safrit Park Parking Lot Improvements	332,279	71,561	403,841
2025 Resurfacing Contract	-	1,527,071	1,527,071
Clearwells 1&2 rehabilitation	1,258,977	93,806	1,352,784
Health Clinic upfit	-	75,040	75,040
Royal Oaks Elementary School Sanitary Sewer Rehab	-	296,826	296,826
PWOC HVAC - Bid 25-21	-	404,999	404,999

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2025 were as follows:

	Salaries and				Total
	Vendors	Benefits	IBNR		
Governmental Activities:					
General	\$ 5,055,630	\$ 1,761,760	\$ -	\$ 6,817,390	
Other governmental	70,811	-	848,439		919,250
Total payables	<u>\$ 5,126,441</u>	<u>\$ 1,761,760</u>	<u>\$ 848,439</u>		<u>\$ 7,736,640</u>
Business-Type Activities:					
Water and sewer	\$ 1,469,749	\$ 65,764	\$ -	\$ 1,535,513	
Stormwater	185,606	14,390	-		199,996
Environmental services	456,662	6,473	-		463,135
Total payables	<u>\$ 2,112,017</u>	<u>\$ 86,627</u>	<u>\$ -</u>		<u>\$ 2,198,644</u>

Pension Plan and Post-Employment Obligations

Local Governmental Employees' Retirement System

Plan Description. The City of Kannapolis is a participating employer in the state-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the state of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities, firefighters and rescue squad workers. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

included in the Annual Comprehensive Financial Report for the state of North Carolina. The state's Annual Comprehensive Financial Report includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement, disability 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. General employee plan members are eligible to retire with unreduced 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. General employee plan members are eligible to retire with reduced 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 and rescue squad workers). Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to eligible beneficiaries of general employee plan 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 workers 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases. Cost of living benefit increases are contingent upon investment gains of the plan at the discretion of the LGERS Board of Trustees, except as authorized by the General Assembly.

LGERS plan members who are LEOs are eligible to retire with unreduced 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 reduced retirement benefits at age 50 with 15 years of creditable service as an officer. LEOs who complete 25 years of creditable service with 15 years as an officer are eligible to retire with reduced retirement benefits. 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 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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, 2025, was 15.04% of compensation for law enforcement officers and 13.64% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Kannapolis were \$4,769,207 for the year ended June 30, 2025.

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 include interest (currently 4% per year) regardless of the number of years of retirement service credit or for the reason for separation from service. State law requires a sixty (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, 2025, the City reported a liability of \$21,313,565 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023. The total pension liability was then rolled forward to the measurement date of June 30, 2024 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, 2024 (measurement date), the City's proportion was 0.3162%, which was an increase of 0.0178% from its proportion measured as of June 30, 2023.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

For the year ended June 30, 2025, the City recognized pension expense of \$6,325,621. At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,734,944	\$ 25,113
Net difference between projected and actual earnings on pension plan investments	2,897,568	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	503,696	388,991
Employer contributions subsequent to the measurement date	<u>4,769,207</u>	-
Total	<u>\$ 11,905,415</u>	<u>\$ 414,104</u>

\$4,769,207 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 ending June 30, 2026. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
June 30	Amount
2026	\$ 2,038,235
2027	4,178,351
2028	833,150
2029	<u>(327,632)</u>
Total	<u>\$ 6,722,104</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Actuarial Assumptions. The total pension liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.5 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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2023 actuarial valuation were based on the results of an actuarial experience study prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021.

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 returns projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2024 are summarized in the following table:

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	33.0%	2.4%
Global equity	38.0%	6.9%
Real estate	8.0%	6.0%
Alternatives	8.0%	8.6%
Opportunistic fixed income	7.0%	5.3%
Inflation sensitive	6.0%	4.3%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. 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 2.38%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

Discount Rate. The discount rate used to measure the total pension liability was 6.50%. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value on calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually 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, 2025

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 6.50 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 (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

	1% Decrease <u>(5.50%)</u>	Discount Rate <u>(6.50%)</u>	1% Increase <u>(7.50%)</u>
City's proportionate share of the net pension liability (asset)	\$ 37,768,261	\$ 21,313,565	\$ 7,777,314

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

Special Separation Allowance

Plan Description. The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified full-time employees. The SSA is required for law enforcement officers. In addition, the City has elected to extend the SSA to firefighters and general employees. The Separation Allowance is equal to 0.85% of the annual equivalent of the base rate of compensation most recently applicable to the employee for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the plan.

All full-time employees of the City are covered by the Separation Allowance. At December 31, 2023, the Separation Allowance's membership consisted of:

Retirees receiving benefits	30
Active plan members	433
Total	463

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Summary of Significant Accounting Policies

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

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

Actuarial Assumptions. The entry age normal actuarial cost method was used in the December 31, 2023 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Projected salary increases	3.25 to 8.25 percent, including inflation and productivity factor
Discount rate	4.28 percent

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

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an experience study completed by the Actuary for the Local Governmental Employees' Retirement System for the five-year period ended December 31, 2019.

Mortality Assumption: All mortality rates use Pub-2010 amount-weighted tables.

Mortality Projection: All mortality rates are projected from 2010 using generational improvement with Scale MP-2019.

Deaths After Retirement (Law Enforcement Officers and Firefighters): Mortality rates are based on the Safety Mortality Table for retirees. Rates for all members are multiplied by 97% and set forward by 1 year.

Deaths After Retirement (General Employees): Mortality rates are based on the General Mortality Table for retirees. Rates for male members are first set forward 2 years, then are multiplied by 96% for ages under 81, and increase until reaching 100% at age 85 and above. Rates for female members are 100% for ages under 92 and increase until reaching 110% at age 95 and above. Because the retiree tables have no rates prior to age 50, the General Mortality Table for employees is used for ages less than 50.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Deaths After Retirement (Survivors of Deceased Members): Mortality rates are based on the Below-median Teachers Mortality Table for contingent survivors. Rates for male members are set forward 3 years. Rates for female members are set forward 1 year. Because the contingent survivor tables have no rates prior to age 45, the Below-median Teachers Mortality Table for employees is used for ages less than 45.

Deaths After Retirement (Disabled Members at Retirement): Mortality rates are based on the Non-Safety Mortality Table for disabled retirees. Rates for general employee male members are set forward 3 years, while firefighter and law enforcement officer male members are set back 3 years. Rates for general employee female members are set back 1 year, while firefighter and law enforcement officer female members are set back 3 years.

Deaths Prior to Retirement: Mortality rates for general employees are based on the General Mortality Table for employees. Mortality rates for firefighters and law enforcement officers are based on the Safety Mortality Table for employees.

Contributions. The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The City paid \$538,123 as benefits came due for the reporting period.

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

At June 30, 2025, the City reported a total pension liability of \$12,404,596. The total pension liability was measured as of December 31, 2024 based on a December 31, 2023 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2024 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2025, the City recognized pension expense of \$1,489,338.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Benefit payments and administrative costs subsequent to measurement date	\$ 282,601	\$ -
Changes of assumptions and other inputs	164,481	1,007,975
Differences between expected and actual experience	2,220,255	-
Total	\$ 2,667,337	\$ 1,007,975

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

\$282,601 paid as benefits came due and reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2026. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2026	\$ 261,714
2027	351,877
2028	516,221
2029	246,949
Total	<u>\$ 1,376,761</u>

Sensitivity of the City's Total Pension Liability to Changes in the Discount Rate. The following presents the City's total pension liability calculated using the discount rate of 4.28 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.28 percent) or 1-percentage-point higher (5.28 percent) than the current rate:

	1%	Discount	1%
	Decrease	Rate	Increase
	(3.28%)	(4.28%)	(5.28%)
Total pension liability	<u>\$ 13,589,806</u>	<u>\$ 12,404,596</u>	<u>\$ 11,342,923</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Schedule of Changes in Total Pension Liability

Special Separation Allowance

	<u>\$</u>
Beginning balance	<u>10,367,668</u>
Service cost	492,562
Interest on the total pension liability	403,944
Difference between expected and actual experience	1,997,481
Changes of assumptions and other inputs	(318,936)
Benefit payments made	<u>(538,123)</u>
Net change in total pension liability	<u>2,036,928</u>
Ending balance of the total pension liability	<u><u>\$ 12,404,596</u></u>

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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

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

	LGERS	SSA	Total
Pension expense	\$ 6,325,621	\$ 1,489,338	\$ 7,814,959
Pension liability	21,313,565	12,404,596	33,718,161
Proportion of the net pension liability (asset)	0.3162%	N/A	

Deferred Outflows of Resources

Differences between expected and actual experience	\$ 3,734,944	\$ 2,220,255	\$ 5,955,199
Changes of assumptions	-	164,481	164,481
Net difference between projected and actual	2,897,568	-	2,897,568
Changes in proportion and differences between	503,696	-	503,696
Employer contributions (LGERS) and benefit payments and administration costs (SSA) subsequent to the measurement date	4,769,207	282,601	5,051,808
	<u><u>\$ 11,905,415</u></u>	<u><u>\$ 2,667,337</u></u>	<u><u>\$ 14,572,752</u></u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$ 25,113	\$ -	\$ 25,113
Changes of assumptions	-	1,007,975	1,007,975
Changes in proportion and differences between employer contributions and proportionate share of contributions	388,991	-	388,991
Total	<u><u>\$ 414,104</u></u>	<u><u>\$ 1,007,975</u></u>	<u><u>\$ 1,422,079</u></u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2025 were \$857,047, which consisted of \$362,235 from the City and \$494,812 from the law enforcement officers. No amounts were forfeited.

Supplemental Retirement Income Plan for All Employees

Plan Description. The City contributes to the Supplemental Retirement Income Plan of North Carolina (401(k) Plan), a defined contribution pension plan sponsored by the state of North Carolina and governed by the Department of State Treasurer and a Board of Trustees. The Department and Board have contracted with Prudential Retirement to be the Plan Administrator. The Plan provides retirement benefits to eligible employees of the City. The Kannapolis City Council has the authority to establish and amend contribution requirements and other benefit provisions.

Funding Policy. The City contributes to the Plan each pay an automatic amount equal to two percent of each eligible employee's salary and up to three percent if the employee contributes the same amount. All amounts contributed are vested immediately. The City contributed \$1,501,654 for the reporting year. No amounts were forfeited.

Deferred Compensation Plan

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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 and City Council Members. During the year ended June 30, 2025, the City contributed \$49,072 to this account.

Other Post-Employment Benefits – Healthcare Benefits

Plan Description. The City has established a policy as a single-employer defined benefit plan providing group medical and dental benefits to employees eligible to retire under the requirements of the Local Government Employees' Retirement System noted above. Currently, one-hundred seven (107) 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Membership of the Plan consisted of the following at June 30, 2024, the date of the latest actuarial valuation:

	<u>All</u> <u>Employees</u>
Retirees and dependents receiving benefits	103
Active plan members	406
Total	<u><u>509</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.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Total OPEB Liability

The City's total OPEB liability of \$30,010,047 was measured as of June 30, 2024 and was determined by an actuarial valuation as of June 30, 2024.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.25%-8.41%, including wage inflation
Discount rate	3.93 percent
Municipal Bond Index Rate	Prior Measurement Date - 3.65% Measurement Date - 3.93%
Healthcare cost trend rates	Pre-Medicare - 7.00% for 2024 decreasing to an ultimate rate of 4.50% by 2034 Medicare - 5.125% for 2024 decreasing to an ultimate rate of 4.50% by 2027 Dental - 3.50%

Changes in assumptions and other inputs reflect a change in the discount rate from 3.65 percent to 3.93 percent.

The City selected a Municipal Bond Index Rate equal to the Bond Buyer 20-year General Obligation Bond Index published at the last Thursday of June by The Bond Buyer, and the Municipal Bond Index Rate as of the measurement date as the discount rate used to measure the TOL.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2024	<u>\$ 55,008,007</u>
Changes for the year:	
Service cost	2,125,597
Interest	2,063,750
Changes of benefit terms	(5,395,448)
Differences between expected and actual experience	(22,158,704)
Changes of assumptions or other inputs	(437,418)
Net Benefit payments	<u>(1,195,737)</u>
Net changes	<u>(24,997,960)</u>
Balance at June 30, 2025	<u>\$ 30,010,047</u>

Mortality rates were based on the Pub-2010 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2015 – December 31, 2019, adopted by the LGERS Board.

The remaining actuarial assumptions (e.g., initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2024 valuation were based on a review of recent plan experience done concurrently with the June 30, 2024 valuation.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following table presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.93 percent) or 1-percentage-point higher (4.93 percent) than the current discount rate:

	1%	Discount	1%
	Decrease <u>(2.93%)</u>	Rate <u>(3.93%)</u>	Increase <u>(4.93%)</u>
Total OPEB liability	<u>\$ 35,826,813</u>	<u>\$ 30,010,047</u>	<u>\$ 25,478,448</u>

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

	1%	1%	
	Decrease <u>\$ 25,171,539</u>	Current <u>\$ 30,010,047</u>	Increase <u>\$ 36,413,891</u>
Total OPEB liability	<u>\$ 25,171,539</u>	<u>\$ 30,010,047</u>	<u>\$ 36,413,891</u>

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

For the year ended June 30, 2025, the City recognized OPEB expense (income) of \$(6,827,784). At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,851,521	\$ 28,975,190
Changes of assumptions	8,465,249	14,503,717
Benefit payments and plan administrative expense made subsequent to the measurement date	<u>1,188,731</u>	-
Total	<u>\$ 12,505,501</u>	<u>\$ 43,478,907</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

\$1,188,731 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2026. Other amounts reported as deferred inflows and outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending	
June 30	Total
2026	\$ (5,559,110)
2027	(4,888,513)
2028	(4,589,885)
2029	(5,928,776)
2030	(6,182,995)
Thereafter	<u>(5,012,858)</u>
Total	<u>\$ (32,162,137)</u>

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, 2025

Deferred Outflows and Inflows of Resources

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

	Deferred Outflows of Resources
Contributions to pension plan in current fiscal year	\$ 5,051,808
Deferred charge on refunding	1,011,487
Changes in proportion and differences between employer contributions and proportionate share of contributions	503,696
Differences between expected and actual experience	8,806,720
Changes of assumptions	8,629,730
Net difference between projected and actual earnings on pension plan investments	2,897,568
Benefit payments and administrative costs for OPEB	1,188,731
Total	<u>\$ 28,089,740</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

	Deferred Inflows of Resources	
	Statement of Net Position	General Fund Balance Sheet
Taxes receivable, net	\$ -	\$ 93,827
Other unavailable revenue	-	2,823,981
Lease receivable, net	17,453,491	17,453,491
Differences between expected and actual experience	29,000,303	-
Changes in assumptions	15,511,692	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	388,991	-
Total	<u>\$ 62,354,477</u>	<u>\$ 20,371,299</u>

Long-Term Obligations

Leases

The City has entered into agreements to lease certain buildings and equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

As of June 30, 2025, the City of Kannapolis, North Carolina had 4 active leases. The leases have payments that range from \$662 to \$677,750 and interest rates that range from 0.0000% to 3.4510%. As of June 30, 2025, the total combined value of the lease liability is \$1,026,537, and the total combined value of the short-term lease liability is \$779,305. The combined value of the right to use assets and accumulated amortization was \$3,221,981 and \$2,623,200, respectively, as of June 30, 2025.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2025 were as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2026	\$ 779,305	\$ 10,418
2027	103,528	6,905
2028	107,157	3,275
2029	36,547	263
Total	<u>\$ 1,026,537</u>	<u>\$ 20,861</u>

Subscriptions

On April 30, 2024, the City of Kannapolis entered into a 36-month subscription for the use of DebtBook. An initial subscription liability was recorded in the amount of \$56,181. As of June 30, 2025, the value of the subscription liability is \$21,098, and the value of the short-term subscription liability is \$21,098. The City of Kannapolis, North Carolina, is required to make annual fixed payments of \$17,000. The subscription has an interest rate of 2.8510%. The value of the right-to-use asset as of June 30, 2025 was \$56,181 with accumulated amortization of \$21,900.

Year Ending June 30	Governmental Activities	
	Principal	Interest
2026	<u>\$ 21,098</u>	<u>\$ 602</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Changes in Long-Term Debt – Governmental Funds

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. Pension liabilities and OPEB liabilities typically have been liquidated in the General Fund.

	Balance			Balance	Current
	July 1, 2024	Additions	Retirements	June 30, 2025	Portion
Direct placement notes payable	\$ 11,863,308	\$ 2,166,000	\$ 3,426,154	\$ 10,603,154	\$ 3,452,154
Limited obligation bonds	82,057,006	-	5,741,999	76,315,007	5,741,999
Premium on debt issuance	1,181,916	-	121,223	1,060,693	121,223
Special obligation bonds	5,131,000	-	733,000	4,398,000	733,000
Leases - equipment	1,803,636	-	777,099	1,026,537	779,305
Subscriptions	39,181	-	18,083	21,098	21,098
Net pension liability (LGERS)	16,008,159	1,255,829	-	17,263,988	-
Compensated absences	7,570,916	693,508	-	8,264,424	6,064,684
Total OPEB liability	44,322,970	-	20,248,348	24,074,622	601,866
Total pension liability (SSA)	8,397,813	1,649,911	-	10,047,724	251,193
Total	<u>\$ 178,375,905</u>	<u>\$ 5,765,248</u>	<u>\$ 31,065,906</u>	<u>\$ 153,075,247</u>	<u>\$ 17,766,522</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Governmental Activities – Notes Payable

4.05% note, payable in annual installments of \$42,154, including interest beginning June 2011 through June 2025; secured by personal property.	\$ 42,154
3.26% note, payable in annual installments ranging from \$470,000 to \$456,000 excluding interest, beginning June 2025 through June 2029; secured by the vehicle and equipment purchased with proceeds.	1,739,000
1.84% note, payable in annual installments ranging from \$2,370,000 to \$2,594,000, excluding interest beginning March 1, 2021 through March 1, 2027; secured by Research Campus Improvements and Cabarrus Health Alliance.	5,144,000
3.42% note, payable in semi-annual installments ranging from \$49,064 to \$225,467, excluding interest beginning April 1, 2018 through April 1, 2037; secured by the equipment purchased with proceeds and any related additions, accessions, repairs, replacements, substitutions, modifications and improvements to Downtown Kannapolis and College Station.	3,678,000
Total	<u>\$ 10,603,154</u>

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

The City's outstanding note from direct placements related to governmental activities of \$42,154 and \$94,085 of business-type activities is secured by equipment purchased with loan proceeds. Upon the failure to pay or make timely payments, the outstanding principal is due immediately.

The City's outstanding note from direct placement related to government activities of \$1,739,000 is secured by vehicles and equipment. Upon the failure to pay or make timely payments, the lender may exercise one or more or more of the following remedies; (a) Declare the unpaid portion of the then outstanding principal component of the Installment Payments immediately due and payable, without notice or demand to the City; (b) Proceed by appropriate court action to enforce the performance by the City of the applicable covenants of this Contract or to recover for any breach thereof; (c) To the extent permitted by applicable law, require the City to deliver the Equipment and

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

the Vehicles, at the City's sole expense, to any location within the State designated by Lender, and take possession of any proceeds of the Equipment and the Vehicles; (d) Exercise all the rights and remedies of a secured party or creditor under Chapter 25 and Chapter 20 of the General Statutes of North Carolina, as amended, and the general laws of the State with respect to the enforcement of the security interests granted or reserved hereunder and to sell, lease, sublease or make other disposition of the same in a commercially reasonable manner for the account of the City, and apply the proceeds of any such sale, lease, sublease or other disposition, after deducting all costs and expenses, including court costs and attorneys' fees, incurred with the recovery, repair, storage and other sale, lease, sublease or other disposition, toward the balance due under this Contract and, thereafter, to pay any remaining proceeds to the City.

The City's outstanding note from direct placements related to governmental activities of \$5,144,000 is secured by research campus improvements and Cabarrus health alliance. Upon the failure to pay or make timely payments, the outstanding principal is due immediately. The City's outstanding note from direct placements related to governmental activities of \$3,678,000 is secured by a deed of trust on the 4.060 acres the public works facility located and 1.477 acres the village park carousel is located. Upon the failure to pay or make timely payments, the outstanding principal is due. Upon default, the lender can enforce its security interest in the mortgaged property, including initiating foreclosure proceedings.

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

Year Ending				
June 30	Principal	Interest		Total
2026	\$ 3,452,154	\$ 278,187		\$ 3,730,341
2027	3,468,000	201,452		3,669,452
2028	887,000	124,519		1,011,519
2029	716,000	94,891		810,891
2030	260,000	71,136		331,136
2031-2035	1,300,000	222,300		1,522,300
2036-2039	520,000	26,676		546,676
Total	<u>\$ 10,603,154</u>	<u>\$ 1,019,161</u>		<u>\$ 11,622,315</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Governmental Activities – Limited Obligation Bonds

The City issued \$25,220,000 in series 2014 limited obligation bonds in August 2014. The City used the funds to construct a three-story city hall and police headquarters. The building is over 100,000 square feet.

The City issued \$14,900,000 in series 2018 limited obligation bonds in January 2018. \$7,900,000 of these bonds are for downtown capital projects; \$6,000,000 to renovate College Station and \$1,900,000 for Streetscape Downtown. The remaining \$7 million is in the Stormwater fund.

The City issued \$11,100,000 in series 2018B limited obligation bonds in April 2018. The City is using the funds for construction of fire stations two and three.

The City issued \$52,000,000 in series 2018C limited obligation bonds in November 2018. All funds will be used to construct the sports and entertainment venue in downtown Kannapolis.

The City issued \$1,380,000 in series 2020 limited obligation bonds in May 2020. The City is using the funds for construction of Irish Buffalo Creek Greenway.

The City issued \$14,710,000 in series 2021 limited obligation bonds in February 2021. The City used the funds for the acquisition of a parking facility constructed as part of a multi-use project located in downtown Kannapolis.

The City's limited obligation bonds of \$76,315,007 are secured by the assets acquired or constructed with the proceeds of the bonds. In the event of default, the lenders may declare the entire principal and accrued interest immediately due and payable. The lenders can also enforce their security interests in the City's assets.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

The City's limited obligation bonds payable at June 30, 2025 are comprised of the following individual issues:

\$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.	\$ 12,285,000
\$7,900,000 Series 2018 limited obligation bonds, issued in January 2018, due in annual installments of \$745,000, excluding interest beginning April 1, 2019 through 2038. Interest is payable semi-annually at a rate of 3.62%	5,135,007
\$11,100,000 Series 2018B limited obligation bonds, issued in October 2018, due in annual installments of \$555,000 on April 1, 2018 through 2038. Interest is payable semi-annually at a rate of 3.97%	7,215,000
\$52,000,000 Series 2018C limited obligation bonds, issued in November 2018, due in annual installments of \$2,600,000 excluding interest on October 1, 2020 through 2039. Interest is payable semi-annually ranging from 3.27% to 4.57%	39,000,000
\$1,380,000 Series 2020 limited obligation bonds, issued in May 2020, due in annual installments of \$92,000 on April 1, 2021 through 2035. Interest is payable semi-annually at a rate of 2.22%	920,000
\$14,710,000 Series 2021 limited obligation bonds, issued in April 2021, due in annual installments ranging from \$735,000 to \$740,000 excluding interest on October 1, 2021 through 2041. Interest is payable semi-annually at rates ranging from 0.293% to 2.767%	<u>11,760,000</u>
Total	<u>\$ 76,315,007</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

Year Ending	June 30	Principal	Interest	Total
2026	\$ 5,741,999	\$ 2,850,752	\$ 8,592,751	
2027	5,741,999	2,635,405	8,377,404	
2028	5,741,999	2,442,545	8,184,544	
2029	5,741,999	2,241,422	7,983,421	
2030	5,741,999	2,035,690	7,777,689	
2031-2035	27,344,995	6,870,397	34,215,392	
2036-2040	19,525,017	2,105,761	21,630,778	
2041-2043	<u>735,000</u>	<u>20,337</u>	<u>755,337</u>	
Total	<u><u>\$ 76,315,007</u></u>	<u><u>\$ 21,202,309</u></u>	<u><u>\$ 97,517,316</u></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.

Year Ending	June 30	Principal
2026	\$ 121,223	
2027	121,223	
2028	121,223	
2029	121,223	
2030	121,223	
2031-2035	<u>454,578</u>	
Total	<u><u>\$ 1,060,693</u></u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Governmental Activities – Special Obligation Bonds

The City of Kannapolis also issued special obligation bonds in 2016 for the acquisition of downtown Kannapolis, comprising ten city blocks and over 700,000 square feet of retail space. The City of Kannapolis pledged sales tax revenues to cover 100 percent of the full obligation of both principal and interest and are payable as collateral for the special obligation bonds, however funds used for repayment will be any General Fund revenue. The bonds have a stated rate of interest of 4.77 percent and are payable in equal installments of principal for fifteen years. The principal balance due at June 30, 2025 was \$4,398,000. In the event of a default, the City agrees to pay to the purchaser, on demand, interest on any and all amounts due and owing by the City under this agreement.

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

Year Ending				
June 30	Principal	Interest	Total	
2026	\$ 733,000	\$ 192,303	\$ 925,303	
2027	733,000	157,338	890,338	
2028	733,000	122,374	855,374	
2029	733,000	87,410	820,410	
2030	733,000	52,446	785,446	
2031	733,000	17,482	750,482	
Total	<u>\$ 4,398,000</u>	<u>\$ 629,353</u>	<u>\$ 5,027,353</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

	<u>Balance</u> <u>June 30, 2024</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2025</u>	<u>Current</u> <u>Maturities</u>
Water and Sewer Fund:					
Revenue bonds	\$ 51,903,000	\$ -	\$ 4,360,000	\$ 47,543,000	\$ 3,019,000
Direct placement notes payable	274,429	-	91,703	182,726	91,700
Net pension liability (LGERS)	2,569,210	201,553	-	2,770,763	-
Total OPEB liability	7,384,558	-	3,249,735	4,134,823	103,371
Total pension liability (SSA)	1,347,795	264,801	-	1,612,596	40,315
Compensated absences	983,412	112,086	-	1,095,498	804,423
Total	64,462,404	578,440	7,701,438	57,339,406	4,058,809
Stormwater Fund:					
Direct placement notes payable	35,123	-	17,562	17,561	17,561
Limited obligation bonds	4,899,994	-	350,000	4,549,994	350,001
Net pension liability (LGERS)	988,158	77,520	-	1,065,678	-
Total OPEB liability	2,516,884	-	1,249,898	1,266,986	31,675
Total pension liability (SSA)	518,384	101,847	-	620,231	15,506
Compensated absences	242,785	-	7,628	235,157	172,681
Total	9,201,328	179,367	1,625,088	7,755,607	587,424
Environmental Services Fund:					
Net pension liability (LGERS)	197,632	15,504	-	213,136	-
Total OPEB liability	783,595	-	249,979	533,616	13,340
Total pension liability (SSA)	103,676	20,369	-	124,045	3,101
Compensated absences	111,804	230	-	112,034	82,618
Total	1,196,707	36,103	249,979	982,831	99,059

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

	<u>Balance</u>				<u>Balance</u>		
	<u>June 30, 2024</u>	<u>Additions</u>	<u>Retirements</u>			<u>June 30, 2025</u>	<u>Current Maturities</u>
Business-Type Activities:							
Revenue bonds	\$ 51,903,000	\$ -	\$ 4,360,000	\$ 47,543,000	\$ 3,019,000		
Direct placement notes payable	309,552	-	109,265	200,287	109,261		
Limited obligation bonds	4,899,994	-	350,000	4,549,994	350,001		
Net pension liability (LGERS)	3,755,000	294,577	-	4,049,577	-		
Total OPEB liability	10,685,037	-	4,749,612	5,935,425	148,386		
Total pension liability (SSA)	1,969,855	387,017	-	2,356,872	58,922		
Compensated absences	1,338,001	112,316	7,628	1,442,689	1,059,722		
Total	<u>\$ 74,860,439</u>	<u>\$ 793,910</u>	<u>\$ 9,576,505</u>	<u>\$ 66,077,844</u>	<u>\$ 4,745,292</u>		

At June 30, 2025, the City had no authorized, but unissued, debt and a legal debt margin of approximately \$624,604,000.

Revenue Bonds

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

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

On January 27, 2021 the City issued \$11,675,000 in 2021 revenue bonds. The proceeds will be used to pay for water system improvements and heavy equipment.

On September 28, 2021 the City issued \$9,735,000 in 2021 revenue bonds. The proceeds will be used to pay for Kannapolis Crossing water and sewer lines.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

On September 28, 2021, the City issued a \$5,571,000 Water and Sewer System Revenue Refunding Bond, Series 2021C (“2021C Bond”) bearing interest payable semiannually at a fixed rate of 0.61% on February 1 and August 1, with final maturity on February 1, 2025. Proceeds of the 2021C Bond were applied to (1) refinance the outstanding amount of the City’s Water and Sewer System Revenue Refunding Bond, Series 2011 and (2) pay the costs incurred in connection with the issuance of the 2021C Bond. The prior net cash flow was \$5,760,991 and the net cash flow on the refunding bonds is \$5,634,259. The net present value savings as a result of the refunding was \$123,353.

On September 28, 2021, the City issued its \$14,216,000 Taxable Water and Sewer System Revenue Refunding Bond, Series 2021D in order to advance refund a portion of its outstanding Water and Sewer System Revenue Bonds, Series 2013 maturing on 4/1/2024 through 4/1/2038. As a result, the refunded Series 2013 Water and Sewer System Revenue Bonds maturing 4/1/2024 through 4/1/2038 were considered defeased, and the liability was removed from the statement of Net Position. The net proceeds of \$14,440,119 were deposited with an escrow agent to provide funds for the future debt service payment on the refunded bonds. The bonds were called on April 1, 2023. The \$14,563,000 Taxable Water and Sewer System Revenue Refunding Bond, Series 2021D, with payment dates of February 1 and August 1, and an interest rate of 2.30%, will mature February 1, 2038. The refunding was undertaken to reduce the total debt service payments by \$2,002,019, a net present value savings of 12.607% of the refunded paramount. Concurrently, the Centered entered into a Forward Purchase option for the right to issue and sell a tax-exempt Water and Sewer System Revenue Refunding Bond, Series 2023 (the “2023 Bond”) for the purpose of redeeming the Taxable Water and Sewer System Revenue Refunding Bond, Series 2021D. The Interest Rate on the 2023 Bond will be 1.82% which will result in additional debt service savings, if the Forward Purchase Option is exercised.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

Business Type Activities – Revenue Bonds:

\$6,477,000 enterprise system revenue bonds, Series 2017, due annually in amounts ranging from \$254,000 to \$445,0000 through April 2037; interest rate of 3.17%	\$ 4,523,000
\$17,400,000 enterprise system revenue bonds, Series 2018, due annually in amounts ranging from \$484,000 to \$1,175,000 , April 1, starting in 2019 until 2038; interest rate is 3.80%	12,802,000
\$9,735,000 enterprise system revenue bonds, Series 2021B, due annually in amounts ranging from \$404,000 to \$580,000 through February 2042; interest rate of 1.93%	8,501,000
\$14,216,000 enterprise system revenue bonds, Refunding Series 2021D, due annually in amounts ranging from \$347,000 to \$14,216,000 through February 2038; interest rate of 2.30%	12,450,000
\$11,675,000 enterprise system revenue bonds, Series 2021, due annually in amounts ranging from \$509,000 to \$646,000 through April 2041; interest rate of 1.72%	<u>9,267,000</u>
Total	<u>\$ 47,543,000</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

Year Ending June 30	Principal	Interest	Total
2026	\$ 3,019,000	\$ 1,179,907	\$ 4,198,907
2027	2,953,000	1,105,419	4,058,419
2028	3,029,000	1,031,285	4,060,285
2029	3,105,000	955,019	4,060,019
2030	3,179,000	876,586	4,055,586
2031-2035	17,165,000	3,126,770	20,291,770
2036-2040	13,298,000	912,400	14,210,400
2041-2045	1,795,000	44,481	1,839,481
Total	<u>\$ 47,543,000</u>	<u>\$ 9,231,867</u>	<u>\$ 56,774,867</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 2013, Series 2017 Series 2018, Series 2021, and Series 2023 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 2013, Series 2017, Series 2018, Series 2021, and Series 2023 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, 2025

The debt service parity coverage ratio calculation for the year ended June 30, 2025 is as follows:

2026 budgeted revenues	\$ 28,425,016
50% of surplus fund at June 30, 2025	1,570,586
2026 budgeted expenses *	<u>(22,351,697)</u>
Operating income	<u>\$ 7,643,905</u>
Debt service on parity indebtedness (120%)	\$ 5,038,688
Debt service on subordinate indebtedness	96,270
Total	<u>\$ 5,134,958</u>
Debt service parity coverage ratio	<u>149%</u>
2026 budgeted revenues	\$ 28,425,016
2026 budgeted expenses *	<u>(22,351,697)</u>
Operating income	<u>\$ 6,073,319</u>
Debt service on parity indebtedness (110%)	\$ 4,618,798
Debt service on subordinate indebtedness	96,270
Total	<u>\$ 4,715,068</u>
Debt service parity coverage ratio	<u>129%</u>

* Excludes debt service and transfers out.

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$83,666,000 in water and sewer system revenue bonds issued in 2013, 2017, 2018 and 2021. 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 2041. Annual principal and interest payments on the bonds are expected to require about 25 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$56,774,867. Principal and interest paid for in the current year and total customer net revenues were \$5,620,937 and \$6,902,579, respectively. The taxing power of the City is not pledged for the payment of the principal or interest on the revenue bonds and no owner has the right to compel the exercise of the taxing power of the City or the forfeiture of any of its property in connection with any default under the bond order.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Business-Type Activities – Notes Payable:

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.	\$ 106,202
4.05% note, payable in annual installments of \$94,090, including interest beginning June 2011 through June 2025; secured by personal property	<u>94,085</u>
Total	<u>\$ 200,287</u>

The City's outstanding note from direct placements related to business-type activities of \$106,202 with the North Carolina Water Pollution Control Revolving Fund. Upon the failure to pay or make timely payments, the state will withhold funds due to the City for principal and interest due.

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

	Year Ending			
	June 30	Principal	Interest	Total
2026	\$ 109,261	\$ 5,015	\$ 114,276	
2027	15,172	2,258	17,430	
2028	15,172	1,881	17,053	
2029	15,172	1,505	16,677	
2030	15,172	753	15,925	
2031-2032	<u>30,338</u>	<u>1,505</u>	<u>31,843</u>	
Total	<u>\$ 200,287</u>	<u>\$ 12,917</u>	<u>\$ 213,204</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Business-Type Activities – Limited Obligation Bonds

The City issued \$14,900,000 in Series 2018 limited obligation bonds in January 2018. \$7,000,000 of these bonds are for downtown stormwater capital projects. The bonds are secured by the stormwater system assets. In the event of default, the lender may declare the entire principal and accrued interest immediately due and payable. The lender can also enforce their security interests in the City's assets.

3.62% note, payable in semi-annual installments of \$745,000, excluding interest beginning April 1, 2019 through 2038; secured by the stormwater improvements \$ 4,549,994

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

Year Ending	Principal	Interest	Total
June 30			
2026	\$ 350,001	\$ 164,710	\$ 514,711
2027	350,001	152,040	502,041
2028	350,001	139,370	489,371
2029	350,001	126,700	476,701
2030	350,001	114,030	464,031
2031-2035	1,750,005	380,098	2,130,103
2036-2039	1,049,984	76,018	1,126,002
Total	\$ 4,549,994	\$ 1,152,966	\$ 5,702,960

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

3. Interfund Balances and Activity

Interfund transfers for the fiscal year ended June 30, 2025 consist of the following:

	<u>From</u>	<u>To</u>	<u>Purpose</u>
General Fund	\$ 1,188,223	\$ -	
Transit	- 1,188,223		To subsidize costs to the Transit Fund
General Fund	4,363,246	-	
			Transfer for Fire Department Training Tower, Main Street Parking lot project, Oak Avenue Parking lot project, Western Cabarrus Communications
General Fund Multi-Year Project	- 813,242		Tower
Eastside Park	- 397,500		Transfer to Eastside Park Fund for planning and design
Downtown Economic Development	- 888,232		Transfer to Downtown Economic Development Fund for development efforts
Culture Arts Facility/History Museum	- 746,115		Transfer to Culture Arts Facility/History Museum Fund for planning activities
Midway Fund	- 250,000		Transfer to Midway Fund for planning and design of revitalization project
Little Texas	- 713,200		Transfer to Little Texas Fund for planning and design of revitalization project
Fire Station Improvement	- 181,900		Transfer to Fire Station Improvement Fund for remodels
Western Cabarrus Fire Protection	- 373,057		Transfer to Western Cabarrus Fire Protection Fund for fire services
General Fund	3,410,440	-	
Environmental Services Fund	- 2,941,690		Operating expenditures
Water and Sewer Revenue Bonds 2020	- 468,750		General fund portion of Public Works Operations Center renovations
General Fund	235,000	-	
Insurance and Risk	- 235,000		Workers Compensation settlement
Total	<u>\$9,196,909</u>	<u>\$9,196,909</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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 \$6,109,879 from WSACC for the year ended June 30, 2025.

5. Significant Economic Dependence

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

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a risk pool funded through the NC League of Municipalities to cover all other risks.

The City's coverage is as follows:

- Commercial General Liability - \$5,000,000 per occurrence / no aggregate
 - Products and Completed Operations Aggregate - \$5,000,000
 - Personal and Advertising Injury - \$5,000,000
 - Damage to Rented Premises - \$1,000,000
 - Medical - \$2,500 per person / \$5,000 per accident
 - No-Fault Sewer Backup - \$1,500 per location per occurrence / \$9,000 aggregate
- Employee Benefits Liability - \$5,000,000 per occurrence / \$5,000,000 aggregate
- Liquor Liability - \$5,000,000 per occurrence / \$5,000,000 aggregate
- Public Officials Liability - \$5,000,000 per occurrence / \$5,000,000 aggregate
- Employment Practices Liability - \$5,000,000 per occurrence / \$5,000,000 aggregate
- Police Professional Liability - \$5,000,000 per occurrence / \$5,000,000 aggregate
- Government Crime Coverage
 - Employee Dishonesty - \$250,000 per occurrence
 - Forgery or Alteration - \$250,000 per occurrence
 - Inside premises theft of money and securities - \$5,000 per occurrence

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

- Outside premises - \$5,000 per occurrence
- Individual Faithful Performance Bonds - \$1,000,000
- Finance Director
- Deputy Finance Director
- Human Resources Director
- Inland Marine Coverages
 - Municipal Equipment - \$3,505,558
 - Computer Equipment & Media - \$4,339,045
 - Fine Arts - \$408,250
 - Portable Equipment - \$1,447,486
- Property Coverage
 - Building and Personal Property - \$271,979,188
 - Scheduled Animals (police K9's) – Insured to value
- Automotive Liability Coverages
 - Auto Liability - \$5,000,000
 - Uninsured Motorists - \$1,000,000
 - Impounded Auto Comprehensive and Collision - \$100,000 per accident
- Cybersecurity Liability - \$3,000,000
- Workers' Compensation – Statutorily self-funded with two additional stop loss policies. SIR \$500,000
- Pollution Liability - \$1,000,000 per incident / \$2,000,000 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. Eligible retirees under 65 receive coverage from the Marketplace and eligible retirees 65 and older receive coverage under a Medicare Supplement 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 covered by a blanket faithful performance bond provided by the NC League of Municipalities in the amount of \$500,000. performance bonded through a commercial surety bond. The Finance Director and two Deputy Finance Directors are each individually bonded for \$1,000,000.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Effective July 1, 2024, the City established an Insurance and Risk (Health Insurance & Workers' Compensation) internal service fund. This fund accounts for health benefits through a self-insured plan for active employees, family members and qualifying retirees. Active employees are covered under the workers compensation policy.

Workers' compensation claims are administered through the NC League of Municipalities. Premiums are budgeted an equivalent way based on full-time positions and charged to other funds. The self-funded plan has an SIR \$500,000 which is then picked up by two (2) stop loss policies.

Claim reserves are established at the end of the Plan year based on the City's and third-party administrator's analysis of claims submission, processing and payment.

Health claims are administered and paid directly from the plan by Blue Cross and Blue Shield of North Carolina (BCBSNC). Specific stop loss is set at \$150,000 per individual health insurance claim with an unlimited lifetime maximum. Aggregate stop-loss is set at the level of 125% and a contract period maximum of \$1,000,000.

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

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

	2025	2024
Unpaid claims:		
Beginning of year - July 1	\$ 314,784	\$ 79,761
Incurred claims	2,368,522	2,532,396
Claim payments	<u>(2,409,430)</u>	<u>(2,297,373)</u>
End of year - June 30	<u><u>\$ 273,876</u></u>	<u><u>\$ 314,784</u></u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

	<u>2025</u>	<u>2024</u>
Unpaid claims:		
Beginning of year - July 1	\$ 289,820	\$ 563,280
Incurred claims	774,718	759,499
Claim payments	<u>(489,975)</u>	<u>(1,032,959)</u>
End of year - June 30	<u><u>\$ 574,563</u></u>	<u><u>\$ 289,820</u></u>

Claims typically have been liquidated in the General Fund.

7. **Claims and Judgments**

At June 30, 2025, 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**

Federal and State-Assisted Programs

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, 2025

9. Net Investment in Capital Assets

The City's net investment in capital assets at June 30, 2025 is calculated as follows:

	Governmental Activities	Business-Type Activities
Capital assets, net	\$ 262,734,308	\$ 143,088,062
Total debt, gross	(93,424,489)	(52,293,281)
Unexpended proceeds	2,190,958	3,641,547
Deferred charge on refunding	-	1,011,487
Net investment in capital assets	<u>\$ 171,500,777</u>	<u>\$ 95,447,815</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

10. Adjustment and Restatement of Beginning Balances

During the current year, the City of Kannapolis implemented GASB Statement No. 101, *Compensated Absences*. In addition to the value of unused vacation time owed to employees upon separation of employment, the City of Kannapolis now recognizes an estimated amount of sick leave earned as of year-end that will be used by employees as time off in future years as part of the liability for compensated absences. The effect of the change in accounting principle are summarized below in the “Restatement GASB 101 Implementation” column in the table below.

	Net Position/Fund		Restatement GASB 101	Net Position/Fund		
	Balance 6/30/2024			Implementation	Balance 6/30/2024 as Restated	
	as Previously Reported	Error Correction				
Government - wide:						
Government activities	\$ 140,821,346	\$ (346,017)	\$ (5,225,243)	\$ 135,250,086		
Business-type activities	93,878,439	-	(873,528)	93,004,911		
Total government-wide	\$ 234,699,785	\$ (346,017)	\$ (6,098,771)	\$ 228,254,997		
Governmental funds:						
Nonmajor funds	\$ 4,152,760	\$ (346,017)	\$ -	\$ 3,806,743		
Proprietary funds:						
Enterprise funds:						
Major funds:						
Water and Sewer Fund	\$ 88,280,473	\$ -	\$ (661,909)	\$ 87,618,564		
Stormwater Fund	3,980,621	-	(149,997)	3,830,624		
Environmental Services fund	1,617,345	-	(61,622)	1,555,723		
Total enterprise funds	\$ 93,878,439	\$ -	\$ (873,528)	\$ 93,004,911		

During the fiscal year ended June 30, 2025, management also determined a quarterly expense of \$346,017 was not correctly included in accounts payables.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

11. Subsequent Event

Subsequent to year-end, the City reached a settlement for \$4,000,000 related to litigation arising from events that occurred prior to June 30, 2025. The liability has been recorded in the financial statements as of year-end. This amount was not included in the FY2025 budget and will be appropriated in FY2026.

On September 16, 2025, the City of Kannapolis issued \$11,965,000 in Water & Sewer System Revenue Bond, Series 2025 (“2025 Bond”). The 2025 Bond is being issued to finance capital improvements, and purchasing and installing new equipment for the City’s Water and Sewer System, including the replacement and improvements to the Kannapolis Lake Dam Spillway.

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Required Supplemental Financial Data

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

Special Separation Allowance –

Schedule of Changes in Total Pension Liability and Schedule of Total Pension Liability as a Percentage of Covered-Employee Payroll

Other Post-Employment Benefits –

Schedule of Changes in the Total OPEB Liability and Related Ratios

Local Governmental Employees' Retirement System –

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

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CITY OF KANNAPOLIS, NORTH CAROLINA**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY****SPECIAL SEPARATION ALLOWANCE****LAST NINE FISCAL YEARS**

	Special Separation Allowance									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	
Beginning balance	\$ 10,367,668	\$ 9,115,875	\$ 10,190,363	\$ 9,940,974	\$ 7,216,302	\$ 6,750,759	\$ 6,880,354	\$ 6,222,001	\$ 6,217,278	
Service cost	492,562	376,100	541,529	535,162	354,550	300,522	329,181	281,075	285,670	
Interest on the total pension liability	403,944	382,829	224,174	187,421	227,648	238,288	211,502	233,152	215,961	
Difference between expected and actual experience in the measurement of the total pension liability	1,997,481	677,557	592,244	309,686	309,267	99,050	(3,831)	72,037	-	
Changes in assumptions or other inputs	(318,936)	282,389	(1,978,275)	(322,821)	2,299,692	236,476	(291,964)	435,699	(161,019)	
Benefit payments	(538,123)	(467,082)	(454,160)	(460,059)	(466,485)	(408,793)	(374,483)	(363,610)	(335,889)	
Ending balance of the total pension liability	<u>\$ 12,404,596</u>	<u>\$ 10,367,668</u>	<u>\$ 9,115,875</u>	<u>\$ 10,190,363</u>	<u>\$ 9,940,974</u>	<u>\$ 7,216,302</u>	<u>\$ 6,750,759</u>	<u>\$ 6,880,354</u>	<u>\$ 6,222,001</u>	

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

**SCHEDULE OF TOTAL PENSION LIABILITY AS A
PERCENTAGE OF COVERED-EMPLOYEE PAYROLL
SPECIAL SEPARATION ALLOWANCE
LAST NINE FISCAL YEARS**

	Special Separation Allowance									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	
Total pension liability	\$ 12,404,596	\$ 10,367,668	\$ 9,115,875	\$ 10,190,363	\$ 9,940,974	\$ 7,216,302	\$ 6,750,759	\$ 6,880,354	\$ 6,222,001	
Covered-employee payroll	28,830,234	23,494,663	22,208,526	20,893,567	19,428,166	18,045,500	17,591,780	16,792,511	15,604,787	
Total pension liability as a percentage of covered-employee payroll	43.03%	44.13%	41.05%	48.77%	51.17%	39.99%	38.37%	40.97%	39.87%	

Notes to Schedules:

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

LAST EIGHT FISCAL YEARS

	Other Post-Employment Benefits							
	2025	2024	2023	2022	2021	2020	2019	2018
Service cost	\$ 2,125,597	\$ 2,134,836	\$ 4,400,569	\$ 4,695,180	\$ 2,848,823	\$ 2,520,369	\$ 2,352,520	\$ 2,728,341
Interest	2,063,750	1,932,713	1,885,739	1,847,249	1,962,992	1,779,798	1,637,169	1,474,701
Changes of benefit terms	(5,395,448)	-	(1,730,174)	-	-	-	-	-
Differences between expected and actual experience	(22,158,704)	242,775	(15,749,458)	795,908	5,366,062	(212,404)	50,872	219,695
Changes of assumptions or other inputs	(437,418)	(1,252,422)	(17,979,045)	(1,702,595)	16,895,783	4,178,746	(3,401,790)	(6,426,198)
Benefit payments	(1,195,737)	(1,014,119)	(1,522,983)	(1,724,426)	(1,114,523)	(456,739)	(1,283,419)	(726,438)
Net change in total OPEB liability	(24,997,960)	2,043,783	(30,695,352)	3,911,316	25,959,137	7,809,770	(644,648)	(2,729,899)
Total OPEB liability - beginning	55,008,007	52,964,224	83,659,576	79,748,260	53,789,123	45,979,353	46,624,001	49,353,900
Total OPEB liability - ending	<u>\$ 30,010,047</u>	<u>\$ 55,008,007</u>	<u>\$ 52,964,224</u>	<u>\$ 83,659,576</u>	<u>\$ 79,748,260</u>	<u>\$ 53,789,123</u>	<u>\$ 45,979,353</u>	<u>\$ 46,624,001</u>
Covered-employee payroll	\$ 26,731,456	\$ 21,904,138	\$ 21,904,138	\$ 17,654,823	\$ 17,654,823	\$ 15,757,086	\$ 15,757,086	\$ 13,974,196
Total OPEB liability as a percentage of covered-employee payroll	112.26%	251.13%	241.80%	473.86%	451.71%	341.36%	291.80%	333.64%

Notes to the Required Schedules:

The City of Kannapolis has no assets accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement 75 to pay related benefits.

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

Fiscal Year	Rate
2025	3.93%
2024	3.65%
2023	3.54%
2022	2.16%
2021	2.21%
2020	3.50%
2019	3.89%
2018	3.56%

Note: The OPEB schedule in the required supplementary information is intended to show information for ten years.

Additional information will be displayed as it becomes available.

CITY OF KANNAPOLIS, NORTH CAROLINA

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

	Local Governmental Employees' Retirement System									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Proportion of the net pension liability (asset) (%)	0.3162%	0.2984%	0.3162%	0.3043%	0.3062%	0.2929%	0.3000%	0.3003%	0.2851%	0.3032%
Proportion of the net pension liability (asset) (\$)	\$ 21,313,565	\$ 19,763,159	\$ 17,838,760	\$ 4,666,580	\$ 10,942,188	\$ 7,997,778	\$ 7,117,026	\$ 4,588,210	\$ 6,050,778	\$ 1,360,608
Covered payroll	\$ 28,406,826	\$ 24,590,977	\$ 21,994,941	\$ 21,022,556	\$ 19,492,000	\$ 18,098,484	\$ 16,923,466	\$ 16,028,418	\$ 15,428,072	\$ 15,658,317
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	75.03%	80.37%	81.10%	22.20%	56.14%	44.19%	42.05%	28.63%	39.22%	8.69%
Plan fiduciary net position as a percentage of the total pension liability**	83.30%	82.49%	84.14%	95.51%	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%

* 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 GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM****REQUIRED SUPPLEMENTARY INFORMATION****CITY OF KANNAPOLIS' CONTRIBUTIONS****LAST TEN FISCAL YEARS**

	Local Governmental Employees' Retirement System									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 4,769,207	\$ 3,729,836	\$ 3,031,924	\$ 2,532,744	\$ 2,169,107	\$ 1,779,294	\$ 1,434,929	\$ 1,306,347	\$ 1,200,412	\$ 1,055,969
Contributions in relation to the contractually required contribution	4,769,207	3,729,836	3,031,924	2,532,744	2,169,107	1,779,294	1,434,929	1,306,347	1,200,412	1,055,969
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 36,272,806	\$ 28,406,826	\$ 24,590,977	\$ 21,994,941	\$ 21,022,556	\$ 19,492,000	\$ 18,098,484	\$ 16,923,466	\$ 16,028,418	\$ 15,428,072
Contributions as a percentage of covered payroll	13.15%	13.13%	12.33%	11.52%	10.32%	9.13%	7.93%	7.72%	7.49%	6.84%

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General Fund

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

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CITY OF KANNAPOLIS, NORTH CAROLINA

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2025**

	Final Budget	Actual	Variance Over/Under
Revenues:			
Ad Valorem Taxes:			
Current year, net of refund	\$ 49,199,642	\$ 50,001,799	\$ 802,157
Prior year, net of refunds	400,000	476,480	76,480
Total	49,599,642	50,478,279	878,637
Other Taxes and Licenses:			
Vehicle licenses	900,000	889,420	(10,580)
Local option sales tax	17,310,863	17,510,204	199,341
Other taxes and licenses	35,000	597,996	562,996
Total	18,245,863	18,997,620	751,757
Unrestricted Intergovernmental:			
Franchise tax	3,135,627	3,683,151	547,524
Beer and wine	240,000	230,151	(9,849)
ABC profit distribution	144,900	146,475	1,575
Rowan County contribution	4,000	10,055	6,055
Total	3,524,527	4,069,832	545,305
Restricted Intergovernmental:			
"State Street-Aid" allocation	1,794,902	1,991,110	196,208
US Department of Transportation - safe streets	1,000,000	37,980	(962,020)
Controlled substance tax	-	31,249	31,249
NC Department of Transportation	27,870	48,373	20,503
TIF contribution Cabarrus County	1,325,926	1,336,644	10,718
Total	4,148,698	3,445,356	(703,342)

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, 2025

	Final Budget	Actual	Variance Over/Under
Sales and Services:			
Public safety fees	305,000	262,800	(42,200)
Rents	980,000	821,136	(158,864)
Lease revenue	450,000	972,163	522,163
Other fees	2,658,554	2,406,256	(252,298)
Total	4,393,554	4,462,355	68,801
Investment Earnings			
	1,400,000	1,778,074	378,074
Miscellaneous			
	1,250,631	1,285,933	35,302
Total revenues	82,562,915	84,517,449	1,954,534
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits	174,581	174,581	-
Operating expenditures	187,424	127,227	60,197
Total	362,005	301,808	60,197
City Manager:			
Salaries and employee benefits	2,200,782	2,200,782	-
Operating expenditures	128,677	109,775	18,902
Total	2,329,459	2,310,557	18,902
Human Resources:			
Salaries and employee benefits	832,093	832,093	-
Operating expenditures	754,905	475,436	279,469
Capital outlay	15,985	15,895	90
Total	1,602,983	1,323,424	279,559

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, 2025

	Final Budget	Actual	Variance Over/Under
Attorney:			
Salaries and employee benefits	609,437	609,437	-
Operating expenditures	191,938	184,844	7,094
Total	801,375	794,281	7,094
Finance:			
Salaries and employee benefits	1,086,423	1,086,423	-
Operating expenditures	495,181	379,209	115,972
Total	1,581,604	1,465,632	115,972
Information Technology:			
Salaries and employee benefits	849,799	849,799	-
Contract services	96,569	89,603	6,966
Operating expenditures	3,363,432	3,037,186	326,246
Capital outlay	238,281	237,635	646
Total	4,548,081	4,214,223	333,858
General Services:			
Salaries and employee benefits	1,129,979	1,129,979	-
Operating expenditures	2,025,807	1,801,647	224,160
Capital outlay	172,186	105,117	67,069
Total	3,327,972	3,036,743	291,229
Economic Development:			
Operating expenditures	602,873	126,385	476,488
Communications:			
Operating expenditures	481,956	296,033	185,923
Capital outlay	27,000	-	27,000
Total	508,956	296,033	212,923

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, 2025**

	Final Budget	Actual	Variance Over/Under
Non-Departmental:			
Operating expenditures	2,690,812	910,966	1,779,846
Capital outlay	2,849,380	1,584,189	1,265,191
Total	5,540,192	2,495,155	3,045,037
 Total general government	 21,205,500	 16,364,241	 4,841,259
Public Safety:			
Police:			
Salaries and employee benefits	13,646,493	13,646,493	-
Operating expenditures	2,291,514	1,796,751	494,763
Capital outlay	1,925,153	1,712,828	212,325
Total	17,863,160	17,156,072	707,088
 Fire:	 11,624,456	 11,624,456	 -
Salaries and employee benefits	11,624,456	11,624,456	-
Operating expenditures	2,107,992	2,103,971	4,021
Capital outlay	2,442,681	1,440,587	1,002,094
Total	16,175,129	15,169,014	1,006,115
 Total public safety	 34,045,660	 32,325,086	 1,720,574
Public Works:			
Engineering:			
Salaries and employee benefits	1,027,394	1,027,394	-
Operating expenditures	50,543	40,472	10,071
Contract services	1,786,957	192,695	1,594,262
Total	2,864,894	1,260,561	1,604,333

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, 2025**

	Final Budget	Actual	Variance Over/Under
Streets and Highways:			
Salaries and employee benefits	1,472,830	1,472,750	80
Operating expenditures	2,120,272	1,439,086	681,186
Capital outlay	614,055	361,856	252,199
Total	4,207,157	3,273,692	933,465
Powell Bill:			
Operating expenditures	5,015,060	3,036,617	1,978,443
Total public works	12,087,111	7,570,870	4,516,241
Community Development:			
Planning:			
Salaries and employee benefits	1,347,335	1,340,811	6,524
Operating expenditures	162,790	110,262	52,528
Capital outlay	37,508	37,508	-
Total	1,547,633	1,488,581	59,052
Parks and Recreation Programs:			
Salaries and employee benefits	3,934,319	3,934,319	-
Operating expenditures	6,060,048	4,113,321	1,946,727
Capital outlay	1,836,009	1,230,144	605,865
Total	11,830,376	9,277,784	2,552,592
Stadium:			
Operating expenditures	432,250	355,917	76,333
Capital outlay	218,385	10,000	208,385
Total	650,635	365,917	284,718
Total parks and recreation	12,481,011	9,643,701	2,837,310

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, 2025**

	Final Budget	Actual	Variance Over/Under
Debt Service:			
Principal retirement	10,696,335	10,696,335	-
Interest and fees	3,675,533	3,675,509	24
Total debt service	14,371,868	14,371,844	24
Total expenditures	95,738,783	81,764,323	13,974,460
Revenues over (under) expenditures	(13,175,868)	2,753,126	15,928,994
Other Financing Sources (Uses):			
Long-term debt issued	2,166,000	2,166,000	-
Transfers out	(10,759,617)	(9,196,909)	1,562,708
Appropriated fund balance	21,769,485	-	(21,769,485)
Total other financing sources (uses)	13,175,868	(7,030,909)	(20,206,777)
Net change in fund balance	\$ -	(4,277,783)	\$ (4,277,783)
Reconciliation from Budgetary Basis of Accounting to Modified Accrual Basis:			
Settlement		(4,000,000)	
Net change in fund balance modified accrual		(8,277,783)	
Fund Balance:			
Beginning of year - July 1		50,931,704	
End of year - June 30	\$ 42,653,921		

CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2025

	<i>Schedule C-1</i>	<i>Schedule D-1</i>	
	Special Revenue Funds	Capital Project Funds	Total
Assets:			
Cash and investments	\$ 1,136,628	\$ 4,387,360	\$ 5,523,988
Long-term receivable	276,238	-	276,238
Due from other governments	51,002	188,070	239,072
Prepaid items	10,000	-	10,000
Cash and cash equivalents, restricted	1,434,232	-	1,434,232
Total assets	\$ 2,908,100	\$ 4,575,430	\$ 7,483,530
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 34,527	\$ 36,284	\$ 70,811
Due to other governments	439,790	-	439,790
Total liabilities	474,317	36,284	510,601
Fund Balances:			
Non-spendable:			
Prepaid items	10,000	-	10,000
Restricted:			
Stabilization by state statute	327,240	188,070	515,310
Restricted, all other	2,096,543	-	2,096,543
Committed	-	4,351,076	4,351,076
Total fund balances	2,433,783	4,539,146	6,972,929
Total liabilities and fund balances	\$ 2,908,100	\$ 4,575,430	\$ 7,483,530

CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2025

	<i>Schedule C-2</i>	<i>Schedule D-2</i>	
	Special Revenue Funds	Capital Project Funds	Total
Revenues:			
Other taxes and licenses	\$ 444,725	\$ -	\$ 444,725
Restricted intergovernmental	495,470	167,432	662,902
Investment earnings	131,626	163,847	295,473
Total revenues	<u>1,071,821</u>	<u>331,279</u>	<u>1,403,100</u>
Expenditures:			
Economic development	2,057,985	-	2,057,985
Contracted services	-	129,975	129,975
Capital outlay	37,354	1,563,069	1,600,423
Total expenditures	<u>2,095,339</u>	<u>1,693,044</u>	<u>3,788,383</u>
Revenues over (under) expenditures	(1,023,518)	(1,361,765)	(2,385,283)
Other Financing Sources (Uses):			
Transfers in	1,188,223	4,363,246	5,551,469
Net change in fund balances	<u>164,705</u>	<u>3,001,481</u>	<u>3,166,186</u>
Fund Balances:			
Beginning of year - July 1	2,615,095	1,537,665	4,152,760
Correction of an error	(346,017)	-	(346,017)
Beginning of year - July 1, as restated	<u>2,269,078</u>	<u>1,537,665</u>	<u>3,806,743</u>
End of year - June 30	<u>\$ 2,433,783</u>	<u>\$ 4,539,146</u>	<u>\$ 6,972,929</u>

Special Revenue Funds

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

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

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

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CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2025

	Community Development Block Grant	Transit Tax Fund	Total
Assets:			
Cash and investments	\$ -	\$ 1,136,628	\$ 1,136,628
Long-term receivable	276,238	-	276,238
Due from other governments	18,747	32,255	51,002
Prepaid items	10,000	-	10,000
Restricted cash	1,434,232	-	1,434,232
Total assets	\$ 1,739,217	\$ 1,168,883	\$ 2,908,100
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 34,527	\$ -	\$ 34,527
Payable from restricted assets:			
Due to other governments	-	439,790	439,790
Total liabilities	34,527	439,790	474,317
Fund Balances:			
Non-spendable:			
Prepays	10,000	-	10,000
Restricted:			
Stabilization by state statute	294,985	32,255	327,240
Restricted, all other	1,399,705	696,838	2,096,543
Total fund balances	1,704,690	729,093	2,433,783
Total liabilities and fund balances	\$ 1,739,217	\$ 1,168,883	\$ 2,908,100

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, 2025

	Community Development Block Grant	Transit Tax Fund	Total
Revenues:			
Other taxes and licenses	\$ -	\$ 444,725	\$ 444,725
Restricted intergovernmental	495,470	-	495,470
Investment earnings	66,998	64,628	131,626
Total revenues	<u>562,468</u>	<u>509,353</u>	<u>1,071,821</u>
Expenditures:			
Current:			
Economic development	<u>592,257</u>	<u>1,503,082</u>	<u>2,095,339</u>
Revenues over (under) expenditures	<u>(29,789)</u>	<u>(993,729)</u>	<u>(1,023,518)</u>
Other Financing Sources (Uses):			
Transfers in (out)	<u>-</u>	<u>1,188,223</u>	<u>1,188,223</u>
Net change in fund balances	<u>(29,789)</u>	<u>194,494</u>	<u>164,705</u>
Fund Balances:			
Beginning of year - July 1	1,734,479	880,616	2,615,095
Correction of an error	<u>-</u>	<u>(346,017)</u>	<u>(346,017)</u>
Beginning of year - July 1, as restated	<u>1,734,479</u>	<u>534,599</u>	<u>2,269,078</u>
End of year - June 30	<u>\$ 1,704,690</u>	<u>\$ 729,093</u>	<u>\$ 2,433,783</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, 2025**

	Actual			
	Project Authorization	Prior Years	Current Year	Total To Date
Revenues:				
CDBG	\$ 4,810,125	\$ 4,339,984	\$ 403,814	\$ 4,743,798
HOME Program	1,551,367	795,808	78,126	873,934
CDBG Program Income	109,350	95,820	13,530	109,350
HOME Program Income	180,497	142,369	24,982	167,351
Urgent Repair Grant	196,937	196,937	-	196,937
Investment income	-	63,173	66,998	130,171
Total revenues	<u>6,848,276</u>	<u>5,634,091</u>	<u>587,450</u>	<u>6,221,541</u>
Expenditures:				
CDBG Program Income:				
Administration	17,500	2,630	14,353	16,983
Infrastructure improvements	960,257	-	23,727	23,727
Public service	72,000	-	12,000	12,000
Capital	38,500	-	37,354	37,354
Transitional housing	154,992	-	2,072	2,072
Urgent Repair Program	60,640	42,127	12,814	54,941
Total	<u>1,303,889</u>	<u>44,757</u>	<u>102,320</u>	<u>147,077</u>
CDBG:				
Administration	641,081	662,557	97,972	760,529
Infrastructure improvements	677,255	347,224	113,875	461,099
Public service	424,472	734,524	44,665	779,189
Section 108 loan payments	2,303,103	2,038,727	-	2,038,727
Urgent Repair Program	1,060,762	318,635	146,884	465,519
Demolition	6,727	16,240	250	16,490
Total	<u>5,113,400</u>	<u>4,117,907</u>	<u>403,646</u>	<u>4,521,553</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, 2025**

			Actual	
	Project Authorization	Prior Years	Current Year	Total To Date
HOME Program Grant:				
Administration	91,995	56,886	10,103	66,989
Construction	70,000	90,000	-	90,000
Downpayment assistance	44,036	31,531	20,000	51,531
Program rehabilitation	724,516	563,566	49,448	613,014
Transitional housing	696,187	124,418	-	124,418
Total	<u>1,626,734</u>	<u>866,401</u>	<u>79,551</u>	<u>945,952</u>
HOME Program Income:				
Program rehabilitation	19,502	18,835	6,740	25,575
Urgent Repair Grant:				
Rehabilitation	-	198,868	-	198,868
Total expenditures	<u>8,063,525</u>	<u>5,246,768</u>	<u>592,257</u>	<u>5,839,025</u>
Revenues over (under) expenditures	<u>(1,215,249)</u>	<u>387,323</u>	<u>(4,807)</u>	<u>382,516</u>
Other Financing Sources (Uses):				
Appropriated fund balance	1,215,249	-	-	-
Transfers in	-	5,000	-	5,000
Total other financing sources (uses)	<u>1,215,249</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Special item - sale (purchase) of land	-	1,215,249	-	1,215,249
Net change in fund balance	<u>\$ -</u>	<u>\$ 1,607,572</u>	<u>(4,807)</u>	<u>\$ 1,602,765</u>
Reconciliation from Budgetary Basis to Modified Accrual Basis:				
Current year loan repayments			(24,982)	
Net change in fund balance			<u>\$ (29,789)</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, 2025

	Budget	Actual	Variance Over/Under
Revenues:			
Other taxes and licenses:			
Vehicle license tax	\$ 433,600	\$ 444,725	\$ 11,125
Investment earnings	<u>-</u>	<u>64,628</u>	<u>64,628</u>
Total revenues	<u>433,600</u>	<u>509,353</u>	<u>75,753</u>
Expenditures:			
Contracted services	1,630,868	1,503,082	127,786
Capital outlay	<u>281,231</u>	<u>-</u>	<u>281,231</u>
Total expenditures	<u>1,912,099</u>	<u>1,503,082</u>	<u>409,017</u>
Revenues over (under) expenditures	<u>(1,478,499)</u>	<u>(993,729)</u>	<u>484,770</u>
Other Financing Sources (Uses):			
Transfers in (out)	1,188,223	1,188,223	-
Appropriated fund balance	<u>290,276</u>	<u>-</u>	<u>(290,276)</u>
Total other financing sources (uses)	<u>1,478,499</u>	<u>1,188,223</u>	<u>(290,276)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 194,494</u>	<u>\$ 194,494</u>

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Capital Project Funds

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

General Fund Multi Year Fund – This fund is used to account for the design, planning and construction of various projects related to the Kannapolis Strategic Plan.

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

Midway Revitalization Efforts – This fund is used to account for the planning and design for the Midway Revitalization Project.

Eastside Park - This fund is used to account for the planning and design for Eastside Park using debt and non-debt sources.

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

Cultural Arts Facility/History Museum – This fund is used to account for funding a cultural arts / facility / history museum.

Downtown Economic Development – This fund is used to account for downtown economic development efforts specifically related to Block 6.

Western Cabarrus Fire Protection - This fund is used to account for startup costs and potential fire station renovation costs to establish fire protection in the areas of Western Cabarrus County.

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

**NONMAJOR CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2025**

	General Fund	Irish Buffalo Creek Greenway	Midway Revitalization Efforts Fund	Eastside Park Fund	Little Texas Road Sidewalk
Multi Year Fund					
Assets:					
Cash and investments	\$ 494,335	\$ 8,749	\$ 260,794	\$ 304,659	\$ 599,525
Due from other governments	<u>3,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,352</u>
Total assets	<u><u>\$ 498,050</u></u>	<u><u>\$ 8,749</u></u>	<u><u>\$ 260,794</u></u>	<u><u>\$ 304,659</u></u>	<u><u>\$ 724,877</u></u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 21,855	\$ 14,429
Fund Balances:					
Restricted:					
Stabilization by state statute	3,715	-	-	-	125,352
Committed	<u>494,335</u>	<u>8,749</u>	<u>260,794</u>	<u>282,804</u>	<u>585,096</u>
Total fund balances	<u><u>498,050</u></u>	<u><u>8,749</u></u>	<u><u>260,794</u></u>	<u><u>282,804</u></u>	<u><u>710,448</u></u>
Total liabilities and fund balances	<u><u>\$ 498,050</u></u>	<u><u>\$ 8,749</u></u>	<u><u>\$ 260,794</u></u>	<u><u>\$ 304,659</u></u>	<u><u>\$ 724,877</u></u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2025

	Cultural Arts Facility/History Museum Fund	Downtown Economic Development Fund	Western Cabarrus Fire Protection	Fire Station Improvements	Bethpage Sidewalks	Total
Assets:						
Cash and investments	\$ 778,330	\$ 926,583	\$ 376,895	\$ 145,624	\$ 491,866	\$ 4,387,360
Due from other governments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,003</u>	<u>188,070</u>
Total assets	<u>\$ 778,330</u>	<u>\$ 926,583</u>	<u>\$ 376,895</u>	<u>\$ 145,624</u>	<u>\$ 550,869</u>	<u>\$ 4,575,430</u>
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,284</u>
Fund Balances:						
Restricted:						
Stabilization by state statute	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,003</u>	<u>188,070</u>
Committed	<u>778,330</u>	<u>926,583</u>	<u>376,895</u>	<u>145,624</u>	<u>491,866</u>	<u>4,351,076</u>
Total fund balances	<u><u>778,330</u></u>	<u><u>926,583</u></u>	<u><u>376,895</u></u>	<u><u>145,624</u></u>	<u><u>550,869</u></u>	<u><u>4,539,146</u></u>
Total liabilities and fund balances	<u>\$ 778,330</u>	<u>\$ 926,583</u>	<u>\$ 376,895</u>	<u>\$ 145,624</u>	<u>\$ 550,869</u>	<u>\$ 4,575,430</u>

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, 2025

	General Fund	Irish	Midway	Eastside	Little
	Multi Year	Buffalo	Revitalization	Park	Texas
	Fund	Creek	Efforts	Fund	Road
Revenues:					
Restricted intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 125,352
Investment earnings	22,147	362	10,794	15,279	12,920
Total revenues	22,147	362	10,794	15,279	138,272
Expenditures:					
Current:					
Contracted services	-	-	-	129,975	-
Capital outlay	337,339	-	-	-	156,690
Total expenditures	337,339	-	-	129,975	156,690
Revenues over (under) expenditures	(315,192)	362	10,794	(114,696)	(18,418)
Other Financing Sources (Uses):					
Transfers in	813,242	-	250,000	397,500	713,200
Net change in fund balances	498,050	362	260,794	282,804	694,782
Fund Balances:					
Beginning of year - July 1	-	8,387	-	-	15,666
End of year - June 30	\$ 498,050	\$ 8,749	\$ 260,794	\$ 282,804	\$ 710,448

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, 2025

	Cultural Arts Facility/History Museum Fund	Downtown Economic Development Fund	Western Cabarrus Fire Protection	Fire Station Improvements	Bethpage Sidewalks	Total
Revenues:						
Restricted intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 42,080	\$ 167,432
Investment earnings	32,215	38,351	3,838	6,693	21,248	163,847
Total revenues	<u>32,215</u>	<u>38,351</u>	<u>3,838</u>	<u>6,693</u>	<u>63,328</u>	<u>331,279</u>
Expenditures:						
Current:						
Contracted services	-	-	-	-	-	129,975
Capital outlay	-	-	-	1,016,440	52,600	1,563,069
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,016,440</u>	<u>52,600</u>	<u>1,693,044</u>
Revenues over (under) expenditures	32,215	38,351	3,838	(1,009,747)	10,728	(1,361,765)
Other Financing Sources (Uses):						
Transfers in	<u>746,115</u>	<u>888,232</u>	<u>373,057</u>	<u>181,900</u>	<u>-</u>	<u>4,363,246</u>
Net change in fund balances	778,330	926,583	376,895	(827,847)	10,728	3,001,481
Fund Balances:						
Beginning of year - July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>973,471</u>	<u>540,141</u>	<u>1,537,665</u>
End of year - June 30	<u>\$ 778,330</u>	<u>\$ 926,583</u>	<u>\$ 376,895</u>	<u>\$ 145,624</u>	<u>\$ 550,869</u>	<u>\$ 4,539,146</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - GENERAL FUND - MULTI YEAR FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	Actual			
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ -	\$ 22,147	\$ 22,147
Expenditures:				
Capital outlay	<u>813,242</u>	<u>-</u>	<u>337,339</u>	<u>337,339</u>
Revenues over (under) expenditures	(813,242)	-	(315,192)	(315,192)
Other Financing Sources (Uses):				
Transfers in	<u>813,242</u>	<u>-</u>	<u>813,242</u>	<u>813,242</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 498,050</u>	<u>\$ 498,050</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - IRISH BUFFALO CREEK GREENWAY

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

				Actual		
		Project Authorization	Prior Years	Current Year	Total to Date	
Revenues:						
Proceeds from grants	\$ 3,116,000	\$ 2,999,151	\$ -	\$ 2,999,151		
Contributions	647,245	647,245	-	-	647,245	
Investment earnings	-	109	362	362	471	
Total revenues	<u>3,763,245</u>	<u>3,646,505</u>	<u>362</u>	<u>362</u>	<u>3,646,867</u>	
Expenditures:						
Capital outlay	4,424,263	4,407,958	-	-	4,407,958	
Contract engineering	988,982	993,160	-	-	993,160	
Total expenditures	<u>5,413,245</u>	<u>5,401,118</u>	<u>-</u>	<u>-</u>	<u>5,401,118</u>	
Revenues over (under) expenditures	<u>(1,650,000)</u>	<u>(1,754,613)</u>	<u>362</u>	<u>362</u>	<u>(1,754,251)</u>	
Other Financing Sources (Uses):						
Issuance of long-term debt	1,380,000	1,380,000	-	-	1,380,000	
Transfers out	(404,976)	(404,976)	-	-	(404,976)	
Transfers in	674,976	787,976	-	-	787,976	
Total other financing sources (uses)	<u>1,650,000</u>	<u>1,763,000</u>	<u>-</u>	<u>-</u>	<u>1,763,000</u>	
Net change in fund balance	\$ -	\$ 8,387	\$ 362	\$ 362	\$ 8,749	

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - MIDWAY REVITALIZATION EFFORTS FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ -	\$ 10,794	\$ 10,794
Expenditures:				
Contracted services	250,000	-	-	-
Revenues over (under) expenditures	(250,000)	-	10,794	10,794
Other Financing Sources (Uses):				
Transfers in	250,000	-	250,000	250,000
Net change in fund balance	\$ -	\$ -	\$ 260,794	\$ 260,794

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - EASTSIDE PARK FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ -	\$ 15,279	\$ 15,279
Expenditures:				
Contracted services	<u>397,500</u>	<u>-</u>	<u>129,975</u>	<u>129,975</u>
Revenues over (under) expenditures	(397,500)	-	(114,696)	(114,696)
Other Financing Sources (Uses):				
Transfers in	<u>397,500</u>	<u>-</u>	<u>397,500</u>	<u>397,500</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 282,804</u>	<u>\$ 282,804</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, 2025

	Actual			
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Proceeds from grants	\$ 4,904,000	\$ 672,097	\$ 125,352	\$ 797,449
Investment earnings	-	(2,827)	12,920	10,093
Total revenues	<u>4,904,000</u>	<u>669,270</u>	<u>138,272</u>	<u>807,542</u>
Expenditures:				
Capital outlay	<u>6,130,000</u>	<u>842,111</u>	<u>156,690</u>	<u>998,801</u>
Revenues over (under) expenditures	<u>(1,226,000)</u>	<u>(172,841)</u>	<u>(18,418)</u>	<u>(191,259)</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	324,293	-	-	-
Transfers in	<u>901,707</u>	<u>188,507</u>	<u>713,200</u>	<u>901,707</u>
Total other financing sources (uses)	<u>1,226,000</u>	<u>188,507</u>	<u>713,200</u>	<u>901,707</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 15,666</u>	<u>\$ 694,782</u>	<u>\$ 710,448</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - CULTURAL ARTS FACILITY/HISTORY MUSEUM FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ -	\$ 32,215	\$ 32,215
Expenditures:				
Contracted services	<u>746,115</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	(746,115)	-	32,215	32,215
Other Financing Sources (Uses):				
Transfers in	<u>746,115</u>	<u>-</u>	<u>746,115</u>	<u>746,115</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 778,330</u>	<u>\$ 778,330</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - DOWNTOWN ECONOMIC DEVELOPMENT FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ -	\$ 38,351	\$ 38,351
Expenditures:				
Contracted services	888,232	-	-	-
Revenues over (under) expenditures	(888,232)	-	38,351	38,351
Other Financing Sources (Uses):				
Transfers in	888,232	-	888,232	888,232
Net change in fund balance	\$ -	\$ -	\$ 926,583	\$ 926,583

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - WESTERN CABARRUS FIRE PROTECTION FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ -	\$ 3,838	\$ 3,838
Expenditures:				
Capital outlay	<u>373,057</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	(373,057)	-	3,838	3,838
Other Financing Sources (Uses):				
Transfers in	<u>373,057</u>	<u>-</u>	<u>373,057</u>	<u>373,057</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 376,895</u>	<u>\$ 376,895</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, 2025

	Actual			
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Investment earnings	\$ 152,764	\$ 256,602	\$ 6,693	\$ 263,295
Expenditures:				
Capital outlay	13,717,460	12,522,402	1,016,440	13,538,842
Contract engineering	3,868,814	712,339	-	712,339
Debt service:				
Interest and fees	61,416	61,416	-	61,416
Total expenditures	<u>17,647,690</u>	<u>13,296,157</u>	<u>1,016,440</u>	<u>14,312,597</u>
Revenues over (under) expenditures	<u>(17,494,926)</u>	<u>(13,039,555)</u>	<u>(1,009,747)</u>	<u>(14,049,302)</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	14,400,000	11,100,000	-	11,100,000
Transfers out	(1,021,727)	(1,021,727)	-	(1,021,727)
Transfers in	4,116,653	3,934,753	181,900	4,116,653
Total other financing sources (uses)	<u>17,494,926</u>	<u>14,013,026</u>	<u>181,900</u>	<u>14,194,926</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 973,471</u>	<u>\$ (827,847)</u>	<u>\$ 145,624</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - BETHPAGE SIDEWALKS
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	Actual			
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Proceeds from grants	\$ 2,193,600	\$ 133,616	\$ 42,080	\$ 175,696
Investment earnings	-	25,146	21,248	46,394
Total revenues	<u>2,193,600</u>	<u>158,762</u>	<u>63,328</u>	<u>222,090</u>
Expenditures:				
Capital outlay	<u>2,742,000</u>	<u>167,021</u>	<u>52,600</u>	<u>219,621</u>
Revenues over (under) expenditures	(548,400)	(8,259)	10,728	2,469
Other Financing Sources (Uses):				
Transfers in	<u>548,400</u>	<u>548,400</u>	<u>-</u>	<u>548,400</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 540,141</u>	<u>\$ 10,728</u>	<u>\$ 550,869</u>

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Enterprise Funds

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

The City of Kannapolis has four Enterprise Funds:

Water and Sewer Fund
Stormwater Fund
Environmental Services Fund

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

Revenue Bonds 2020 Fund

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CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2025

	<u>Budget</u>	<u>Actual</u>	Variance
			Over/Under
Revenues:			
Operating Revenues:			
Charges for services:			
Water and sewer charges	\$ 25,616,813	\$ 23,237,354	\$ (2,379,459)
Water and sewer taps	3,381,000	2,766,234	(614,766)
Penalties	525,000	566,665	41,665
Other	15,000	83,330	68,330
Total operating revenues	<u>29,537,813</u>	<u>26,653,583</u>	<u>(2,884,230)</u>
Non-Operating Revenues:			
Interest on investments	100,000	475,913	375,913
Total revenues	<u>29,637,813</u>	<u>27,129,496</u>	<u>(2,508,317)</u>
Expenditures:			
Administration:			
Salaries and employee benefits	1,251,089	1,203,163	47,926
Operating expenditures	500,200	393,603	106,597
Total	<u>1,751,289</u>	<u>1,596,766</u>	<u>154,523</u>
Distribution:			
Salaries and employee benefits	3,959,727	3,977,778	(18,051)
Operating expenditures	3,871,774	2,427,904	1,443,870
Repairs and maintenance	496,275	448,941	47,334
Capital outlay	951,035	799,342	151,693
Total	<u>9,278,811</u>	<u>7,653,965</u>	<u>1,624,846</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, 2025

	Budget	Actual	Variance Over/Under
Filter Plant:			
Salaries and employee benefits	1,917,474	1,932,928	(15,454)
Operating expenditures	3,100,936	2,661,369	439,567
Repairs and maintenance	459,297	379,892	79,405
Capital outlay	198,523	194,884	3,639
Total	5,676,230	5,169,073	507,157
General Services			
	1,845,182	1,845,182	-
Sewage Treatment			
	6,150,191	6,100,624	49,567
Debt Service:			
Principal	5,810,947	4,451,703	1,359,244
Interest and fees	1,712,168	1,302,782	409,386
Total debt service	7,523,115	5,754,485	1,768,630
Total expenditures	32,224,818	28,120,095	4,104,723
Revenues over (under) expenditures	(2,587,005)	(990,599)	1,596,406
Other Financing Sources (Uses):			
Transfers out	(3,045,504)	(3,045,504)	-
Issuance of debt	1,000,000	-	(1,000,000)
Appropriated fund balance	4,632,509	-	(4,632,509)
Total other financing sources (uses)	2,587,005	(3,045,504)	(5,632,509)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	(4,036,103)	\$ (4,036,103)

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, 2025

	<u>Budget</u>	<u>Actual</u>	Variance
			Over/Under
Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Depreciation and amortization	(3,894,493)		
Amortization of intangible asset	(48,222)		
Capital outlay	994,226		
Interfund transfers - capital projects	3,514,254		
Amortization of deferred charge on refunding	(112,388)		
Payment of debt principal	4,451,703		
Change in accrued interest	25,830		
Change in OPEB liability	3,249,735		
Change in compensated absences	(112,086)		
Change in total pension liability - SSA	(264,801)		
Change in net pension liability - LGERS	(201,553)		
Change in deferred outflows of resources - pensions	74,331		
Change in deferred inflows of resources - pensions	68,343		
Change in deferred outflows of resources - OPEB	(424,363)		
Change in deferred inflows of resources - OPEB	(1,788,876)		
Interest from capital projects	297,845		
Contributions from developer	3,166,743		
Total	<u>8,996,228</u>		
Change in net position	\$ 4,960,125		

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - REVENUE BONDS 2020 FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

			Actual		
	Project Authorization	Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental	\$ 45,731	\$ 45,731	\$ -	\$ 45,731	
Investment earnings	1,000,000	917,265	297,845	1,215,110	
Total revenues	1,045,731	962,996	297,845	1,260,841	
Expenditures:					
Downtown sewer outfall	4,550,000	335,207	8,490	343,697	
Lane Street water line	3,776,192	3,776,191	-	3,776,191	
High bridge water line	10,400,000	9,627,247	286,032	9,913,279	
Sludge lagoon dewatering	1,001,433	1,001,433	-	1,001,433	
Mooresville road water line	4,701,742	2,701,742	10,363	2,712,105	
Rodgers lake road bridge water	200,000	12,500	-	12,500	
Concrete spillway	8,190,000	279,631	140,899	420,530	
Bulk storage replacement	520,710	520,710	-	520,710	
Clearwell pre-construction engineering	1,743,215	78,150	1,323,393	1,401,543	
Public works operations center	588,629	-	110,199	110,199	
Sewer cleaner truck	630,309	630,309	-	630,309	
Highway 29	230,865	230,864	-	230,864	
ForrestBrook pump station	300,000	-	-	-	
Debt issuance cost	585,600	961,762	-	961,762	
Debt service:					
Principal	18,760,200	-	-	-	
Interest	1,178,347	576,888	-	576,888	
Total expenditures	57,357,242	20,732,634	1,879,376	22,612,010	

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - REVENUE BONDS 2020 FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	<u>Actual</u>			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues over (under) expenditures	(56,311,511)	(19,769,638)	(1,581,531)	(21,351,169)
Other Financing Sources (Uses):				
Issuance of long-term debt	57,069,191	41,544,000	-	41,544,000
Payment to refunding bond agent	(19,964,343)	(19,964,343)	-	(19,964,343)
Deferred charge on refunding	1,204,152	1,204,152	-	1,204,152
Contributed capital	300,000	-	-	-
Transfer in from General Fund	14,876,299	14,407,549	468,750	14,876,299
Transfer in from Water Sewer Fund	3,045,504	-	3,045,504	3,045,504
Transfer (out)	(219,292)	(219,291)	-	(219,291)
Total other financing sources (uses)	<u>56,311,511</u>	<u>36,972,067</u>	<u>3,514,254</u>	<u>40,486,321</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 17,202,429</u>	<u>\$ 1,932,723</u>	<u>\$ 19,135,152</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

STORMWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2025

	Budget	Actual	Variance Over/Under
Revenues:			
Operating revenues:			
Charges for services:			
Sales and services	\$ 3,390,500	\$ 3,530,713	\$ 140,213
Miscellaneous revenue	270,000	596	(269,404)
Total operating revenues	<u>3,660,500</u>	<u>3,531,309</u>	<u>(129,191)</u>
Non-operating revenues:			
Grant revenues	-	83,800	83,800
Investment earnings	80,000	84,412	4,412
Total non-operating revenues	<u>80,000</u>	<u>168,212</u>	<u>88,212</u>
Total revenues	<u>3,740,500</u>	<u>3,699,521</u>	<u>(40,979)</u>
Expenditures:			
Salaries and employee benefits	1,556,260	1,566,306	(10,046)
Operating expenditures	973,087	864,177	108,910
General services	412,528	412,528	-
Capital outlay	388,366	163,413	224,953
Total	<u>3,330,241</u>	<u>3,006,424</u>	<u>323,817</u>
Debt Service:			
Principal	367,562	367,562	-
Interest	178,697	175,330	3,367
Total	<u>546,259</u>	<u>542,892</u>	<u>3,367</u>
Total expenditures	<u>3,876,500</u>	<u>3,549,316</u>	<u>327,184</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

STORMWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2025

	Budget	Actual	Variance Over/Under
Revenues over (under) expenditures	(136,000)	150,205	286,205
Other Financing Sources (Uses):			
Appropriated fund balance	136,000	-	(136,000)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	150,205	\$ 150,205
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Reconciling items:			
Depreciation and amortization	(326,431)		
Capital outlay	163,413		
Change in interest accrued	3,207		
Change in compensated absences	7,628		
Change in total pension liability - SSA	(101,847)		
Change in net pension liability - LGERS	(77,520)		
Change in deferred outflows of resources - pensions	28,591		
Change in deferred inflows of resources - pensions	26,285		
Change in OPEB liability	1,249,898		
Change in deferred outflows of resources - OPEB	(163,217)		
Change in deferred inflows of resources - OPEB	(688,029)		
Payment of debt principal	367,562		
Total	<u>489,540</u>		
Change in net position	\$ 639,745		

CITY OF KANNAPOLIS, NORTH CAROLINA

ENVIRONMENTAL SERVICES FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2025

	<u>Budget</u>	<u>Actual</u>	Variance
			Over/Under
Revenues:			
Operating revenues:			
Charges for services:			
Sales and services	\$ 4,334,000	\$ 4,448,951	\$ 114,951
Investment earnings	45,000	114,424	159,424
Miscellaneous revenue	<u>104,000</u>	<u>55,874</u>	<u>(48,126)</u>
Total revenues	<u>4,483,000</u>	<u>4,619,249</u>	<u>226,249</u>
Expenditures:			
Salaries and employee benefits	942,886	891,785	51,101
Operating expenditures	729,465	634,255	95,210
Contracted services	5,625,346	5,372,609	252,737
Capital outlay	<u>432,000</u>	<u>430,513</u>	<u>1,487</u>
Total	<u>7,729,697</u>	<u>7,329,162</u>	<u>400,535</u>
Revenues over (under) expenditures	<u>(3,246,697)</u>	<u>(2,709,913)</u>	<u>536,784</u>
Other Financing Sources (Uses):			
Transfers in	2,941,690	2,941,690	-
Appropriated fund balance	<u>305,007</u>	<u>-</u>	<u>(305,007)</u>
Total other financing sources (uses)	<u>3,246,697</u>	<u>2,941,690</u>	<u>(305,007)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 231,777	\$ 231,777

CITY OF KANNAPOLIS, NORTH CAROLINA

ENVIRONMENTAL SERVICES FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2025

	Budget	Actual	Variance Over/Under
Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Reconciling items:			
Capital outlay	430,513		
Depreciation and amortization	(147,192)		
Change in total pension liability - SSA	(20,369)		
Change in net pension liability - LGERS	(15,504)		
Change in deferred outflows of resources - pensions	5,717		
Change in deferred inflows of resources - pensions	5,258		
Change in OPEB liability	249,979		
Change in deferred outflows of resources - OPEB	(32,643)		
Change in deferred inflows of resources - OPEB	(137,606)		
Change in compensated absences	(230)		
Total	<u>337,923</u>		
Change in net position	\$ 569,700		

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Internal Service Fund

The Internal Service Fund accounts for the accumulation of premiums and allocation of costs associated with claims for employees, retirees and family member included on the self-insured health insurance plan and active employees covered by the workers' compensation policy

The City of Kannapolis has one Internal Service Fund:

Health Insurance and Risk Fund

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CITY OF KANNAPOLIS, NORTH CAROLINA**INTERNAL SERVICE FUND
STATEMENT OF NET POSITION
JUNE 30, 2025**

	Health	Insurance and Risk Fund
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,279,482	
Due from other governments	53	
Prepaid items	79,689	
Total current assets	<u>2,359,224</u>	
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	<u>848,439</u>	
Net Position:		
Unrestricted	<u>\$ 1,510,785</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

INTERNAL SERVICE FUND
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2025

	Health	Insurance and	Risk Fund
Operating Revenues:			
Charges for services		\$ 6,854,964	
Operating Expenses:			
Health insurance		5,432,819	
Workers' compensation		<u>861,156</u>	
Total operating expenses		<u>6,293,975</u>	
Operating income (loss)		<u>560,989</u>	
Non-Operating Revenues (Expenses):			
Interest earned on investments		75,217	
Transfers from other funds		<u>235,000</u>	
Total non-operating revenues (expenses)		<u>310,217</u>	
Change in net position		871,206	
Net Position:			
Net position, beginning, July 1		<u>639,579</u>	
End of year - June 30		<u>\$ 1,510,785</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

INTERNAL SERVICE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2025

	Health Insurance and Risk Fund
Cash Flows from Operating Activities:	
Cash received from customers and users	\$ 7,030,258
Cash paid for goods and services	<u>(6,129,829)</u>
Net cash provided (used) by operating activities	<u>900,429</u>
Cash Flows from Non-Capital Financing Activities:	
Due to (from) other funds	(50)
Transfers from other funds	<u>235,000</u>
Net cash provided (used) by non-capital financing activities	<u>234,950</u>
Cash Flows from Investing Activities:	
Interest on investments	<u>75,217</u>
Net increase (decrease) in cash and cash equivalents	1,210,596
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>1,068,886</u>
End of year - June 30	<u>\$ 2,279,482</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 560,989
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Change in assets and liabilities:	
(Increase) decrease in accounts receivables	175,294
(Increase) decrease in prepaid items	<u>(79,689)</u>
Increase (decrease) in accounts payable	<u>243,835</u>
Net cash provided (used) by operating activities	<u>\$ 900,429</u>

CITY OF KANNAPOLIS, NORTH CAROLINA**INSURANCE AND RISK FUND****SCHEUDLE OF REVENUES AND EXPENDITURES -
FINANCIAL PLAN AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2025**

	Financial Plan	Actual	Variance Over/Under
Operating Revenues:			
Charges for services	\$ 6,761,084	\$ 6,854,964	\$ 93,880
Non-Operating Revenues:			
Investment earnings	-	75,217	75,217
Total revenues	<u>6,761,084</u>	<u>6,930,181</u>	<u>169,097</u>
Expenditures:			
General government:			
Health insurance	6,247,204	5,432,819	814,385
Workers' compensation	998,880	861,156	137,724
Total expenditures	<u>7,246,084</u>	<u>6,293,975</u>	<u>952,109</u>
Revenues over (under) expenditures	<u>(485,000)</u>	<u>636,206</u>	<u>1,121,206</u>
Other Financing Sources (Uses):			
Transfers from other funds	235,000	235,000	-
Insurance proceeds	-	-	-
Appropriated net position	250,000	-	(250,000)
Total other financing sources (uses)	<u>485,000</u>	<u>235,000</u>	<u>(250,000)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 871,206</u>	<u>\$ 871,206</u>

Additional Financial Data

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

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy

Analysis of Current Tax Levy - Secondary Market Disclosure

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CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2025

Fiscal Year	Uncollected Balance July 1, 2024		Additions	Collections and Credits	Uncollected Balance June 30, 2025	
	\$				\$	
2024 - 2025	\$	-	\$ 50,499,222	\$ 50,022,884	\$ 476,338	
2023 - 2024		361,655		254,190		107,465
2022 - 2023		99,848		37,503		62,345
2021 - 2022		66,082		17,334		48,748
2020 - 2021		46,115		5,276		40,839
2019 - 2020		31,131		4,028		27,103
2018 - 2019		21,207		4,762		16,445
2017 - 2018		23,165		3,623		19,542
2016 - 2017		14,925		1,807		13,118
2015 - 2016		14,449		1,833		12,616
2014 - 2015		15,370		15,370		-
Total	\$	<u>693,947</u>	\$ <u>50,499,222</u>	\$ <u>50,368,610</u>		<u>824,559</u>
Less: Allowance for uncollectible accounts						<u>730,732</u>
Ad valorem taxes receivable - net					\$	<u>93,827</u>
Reconcilement with Revenues:						
Ad valorem taxes - General Fund					\$	50,478,279
Reconciling items:						
Penalties and interest						(153,123)
Taxes written off - state statute						15,370
Miscellaneous adjustment						<u>28,084</u>
Total collections and credits					\$	<u>50,368,610</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2025

	Total Levy				
	City-Wide			Property Excluding Registered	Registered Motor Vehicles
	Property Valuation	Rate	Total Levy	Motor Vehicles	Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 9,018,991,096	\$ 0.5595	\$ 50,461,255	\$ 46,888,990	\$ 3,572,265
Penalties	-		3,552	3,552	-
Total	9,018,991,096		50,464,807	46,892,542	3,572,265
Discoveries:					
Current year taxes	21,129,223	0.5595	118,218	118,218	-
Prior year taxes	11,446,508	0.6300	72,113	72,113	-
Penalties	-		11,564	11,564	-
Total	32,575,731		201,895	201,895	-
Releases:					
Property taxed at current year's rate	(29,933,870)	0.5595	(167,480)	(167,480)	-
Total property valuation	\$ 9,021,632,957				
Net Levy					
			50,499,222	46,926,957	3,572,265
Less uncollected taxes at June 30, 2025			476,338	476,338	-
Current Year's Taxes Collected			\$ 50,022,884	\$ 46,450,619	\$ 3,572,265
Percent Current Year Collected			99.06%	98.98%	100.00%

CITY OF KANNAPOLIS, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
SECONDARY MARKET DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2025**Assessed Valuation:**

Assessment ratio (1)	<u>100.00%</u>
Real property	\$ 7,931,250,468
Personal property	963,963,525
Public service companies (2)	<u>126,418,964</u>
Total assessed valuation	<u>\$ 9,021,632,957</u>
 Tax rate per \$100	 <u>0.5595</u>
 Levy (includes discoveries, releases, penalties, and abatements)	 <u>\$ 50,499,222</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.

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Statistical Section

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

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Statistical Section

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

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

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

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

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

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

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

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

Demographic and Economic Statistics	Table 14
Principal Employers	Table 15
Property Values and Construction	Table 16

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

Full-time Equivalent City Government	
Employees by Function	Table 17
Operating Indicators by Function	Table 18
Capital Asset Statistics by Function/Program	Table 19

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 1

NET POSITION BY COMPONENT

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(Dollars in Thousands)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Governmental activities										
Net investment in capital assets	\$ 110,342	\$ 115,399	\$ 116,405	\$ 117,862	\$ 126,260	\$ 142,469	\$ 142,693	\$ 151,564	\$ 158,585	\$ 171,501
Restricted	3,626	8,591	9,291	15,207	7,607	8,280	10,024	11,007	12,041	10,146
Unrestricted	1,750	(11,002)	(38,986)	(41,417)	(37,939)	(44,365)	(21,229)	(20,357)	(29,804)	(33,249)
Total governmental activities net position	\$ 115,718	\$ 112,988	\$ 86,710	\$ 91,652	\$ 95,928	\$ 106,384	\$ 131,487	\$ 142,214	\$ 140,822	\$ 148,398
Business-type activities										
Net investment in capital assets	\$ 62,887	\$ 71,696	\$ 77,496	\$ 80,925	\$ 83,602	\$ 83,324	\$ 80,114	\$ 85,378	\$ 88,839	\$ 95,447
Unrestricted	9,331	5,054	(1,438)	945	(88)	4,121	7,942	6,190	5,039	3,727
Total business-type activities net position	\$ 72,218	\$ 76,750	\$ 76,058	\$ 81,870	\$ 83,514	\$ 87,445	\$ 88,056	\$ 91,568	\$ 93,878	\$ 99,174
Primary government										
Net investment in capital assets	\$ 173,229	\$ 187,095	\$ 193,901	\$ 198,787	\$ 209,862	\$ 226,893	\$ 222,807	\$ 236,942	\$ 247,424	\$ 266,948
Restricted	3,626	8,591	9,291	15,207	7,607	8,280	10,024	11,007	12,041	10,146
Unrestricted	11,081	(5,948)	(40,424)	(40,472)	(38,027)	(40,244)	(13,228)	(14,167)	(24,765)	(29,522)
Total primary government net position	\$ 187,936	\$ 189,738	\$ 162,768	\$ 173,522	\$ 179,442	\$ 194,929	\$ 219,543	\$ 233,782	\$ 234,700	\$ 247,572

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Expenses										
Governmental activities:										
General government	\$ 744	\$ 7,325	\$ 10,748	\$ 9,492	\$ 8,761	\$ 5,819	\$ 12,557	\$ 13,920	\$ 18,649	\$ 15,468
Public safety	18,549	17,463	18,459	18,626	20,005	24,248	25,979	24,996	25,580	27,070
Public works	10,485	7,236	6,330	5,462	5,520	4,890	7,152	7,889	8,446	9,922
Community development	1,420	1,432	1,685	2,108	2,114	1,955	2,058	3,086	5,616	7,662
Parks and recreation	2,479	143	2,783	3,271	3,260	4,327	5,442	5,997	12,995	9,788
Interest on long-term debt	3,110	2,982	3,328	3,105	2,803	2,492	4,408	4,188	3,886	3,431
Total governmental activities	36,787	36,581	43,333	42,064	42,463	43,731	57,597	60,076	75,172	73,341
Business-type activities:										
Water and sewer	14,130	14,819	14,891	16,640	18,260	19,541	19,493	22,317	23,877	26,100
Stormwater	1,684	1,901	2,113	2,288	2,292	2,949	2,934	2,863	3,623	3,060
Environmental services	3,632	3,645	3,814	3,822	4,391	4,556	4,036	4,613	4,856	6,991
Downtown	1,630	1,561	1,639	4,207	8,103	3,020	-	-	-	-
Total business-type activities	21,076	21,926	22,457	26,957	33,046	30,066	26,463	29,793	32,356	36,151
Total primary government expenses	\$ 57,863	\$ 58,507	\$ 65,790	\$ 69,021	\$ 75,509	\$ 73,797	\$ 84,060	\$ 89,869	\$ 107,528	\$ 109,492
Program Revenues										
Governmental activities										
- Charges for services:										
General government	\$ 94	\$ 118	\$ 155	\$ 204	\$ 145	\$ 166	\$ 1,635	\$ 548	\$ 1,084	\$ 1,992
Public safety	246	142	160	230	136	283	308	337	304	324
Public works	144	84	74	116	-	-	-	-	-	-
Community development	118	110	150	184	155	119	184	308	298	221
Parks and recreation	132	280	444	425	383	207	635	1,009	1,583	2,124
Operating grants and contributions:										
General government	829	1,376	975	3,653	769	3,662	4,437	1,288	2,548	1,239
Public safety	-	92	39	56	11	735	9,409	126	341	69
Public works	-	-	-	-	-	-	-	-	-	-
Community development	13	68	71	85	75	-	-	230	121	92
Parks and recreation	67	-	-	-	-	-	-	-	-	-
Capital grants and contributions:										
General government										
General government	1,523	1,522	1,524	1,523	1,523	1,347	1,427	2,273	2,065	2,574
Public safety	-	-	-	-	-	-	-	-	-	-
Public works	1,590	1,324	1,316	1,880	4,995	1,259	1,573	1,583	2,060	1,991
Community development	355	322	2,132	498	599	678	678	566	495	-
Parks and recreation	457	121	66	46	25	-	312	910	60	167
Total governmental activities program revenues	5,213	5,592	5,296	10,534	8,715	8,377	20,599	9,290	11,030	11,288

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Program Revenues (Continued):										
Business-type activities										
- Charges for services:										
Water and sewer	16,315	15,803	17,032	17,113	19,249	21,028	23,548	24,039	24,234	26,651
Stormwater	2,449	2,372	2,941	2,991	3,039	3,079	3,143	3,220	3,209	3,531
Environmental services	1,932	2,366	2,534	3,274	3,369	3,458	4,067	4,173	4,242	4,505
Downtown	764	913	841	765	696	511	-	-	-	-
Operating grants and contributions:										
Water and sewer	-	-	100	51	17	17	-	46	-	-
Stormwater	-	-	-	-	-	-	-	-	141	84
Capital grants and contributions:										
Water and sewer	1,205	1,116	1,654	1,153	2,635	2,941	2,500	1,000	500	3,166
Downtown	-	-	-	1,103	-	-	-	-	-	-
Total business-type activities program revenues	22,665	22,570	25,102	26,450	29,005	31,034	33,258	32,478	32,326	37,937
Total primary government program revenues	\$ 27,878	\$ 28,162	\$ 30,398	\$ 36,984	\$ 37,720	\$ 39,411	\$ 53,856	\$ 41,768	\$ 43,356	\$ 49,225
Net (Expense)/Revenue										
Governmental activities	\$ (31,574)	\$ (32,589)	\$ (38,037)	\$ (31,530)	\$ (33,748)	\$ (35,354)	\$ (36,999)	\$ (50,786)	\$ (64,142)	\$ (62,053)
Business-type activities	1,589	644	2,645	(507)	(4,041)	968	6,795	2,685	(30)	1,786
Total primary government net (expense)/revenue	\$ (29,985)	\$ (31,945)	\$ (35,392)	\$ (32,037)	\$ (37,789)	\$ (34,386)	\$ (30,203)	\$ (48,101)	\$ (64,172)	\$ (60,267)
General Revenues and Other Changes in Net Position										
Governmental activities:										
- Taxes:										
Ad valorem taxes	\$ 23,620	\$ 24,802	\$ 25,379	\$ 26,139	\$ 27,679	\$ 32,759	\$ 34,529	\$ 36,142	\$ 39,433	\$ 50,541
Sales tax	8,168	9,246	9,561	10,358	10,469	11,906	14,418	15,933	16,416	19,161
Other taxes and licenses	758	685	693	1,165	1,326	1,456	1,496	1,550	1,670	2,079
Franchise tax	2,749	2,727	2,716	2,766	2,698	2,601	2,805	3,049	3,250	4,441
Unrestricted intergovernmental revenues	195	211	206	208	210	210	216	256	284	240
Investment earnings	204	299	349	889	706	106	72	1,980	2,697	2,149
Special item - Rowan County Debt Forgiveness	-	-	-	-	-	-	-	2,688	-	-
Transfers	(2,360)	(4,941)	(2,201)	(5,053)	(5,065)	(3,130)	7,515	(86)	(1,148)	(3,410)
Total general revenues and transfers	33,334	33,029	36,703	36,472	38,023	45,908	61,051	61,512	62,602	75,201
Business-type activities:										
Investment earnings	13	16	309	1,266	621	40	131	742	1,192	973
Transfers	2,360	4,941	2,201	5,053	5,065	3,939	(7,515)	86	1,148	3,410
Total business-type activities	2,373	4,957	2,510	6,319	5,686	3,979	(7,384)	828	2,340	4,383
Change in Net Position										
Governmental activities	\$ 1,760	\$ 440	\$ (1,334)	\$ 4,942	\$ 4,275	\$ 10,554	\$ 24,052	\$ 10,726	\$ (1,540)	\$ 13,148
Business-type activities	3,962	5,601	5,155	5,812	1,645	4,947	(589)	3,513	2,310	6,169
Correction of an Error / Restatement										
Governmental activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 146	\$ (5,571)
Business type activities	-	-	-	-	-	-	-	-	-	(874)
Total primary government	\$ 5,722	\$ 6,041	\$ 3,821	\$ 10,754	\$ 5,920	\$ 15,501	\$ 23,463	\$ 14,239	\$ 916	\$ 12,872

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 3

FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Dollars in Thousands)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
General Fund:										
Nonspendable	\$ 220	\$ 264	\$ 128	\$ 91	\$ 113	\$ 503	\$ 472	\$ 1,222	\$ 1,603	\$ 1,809
Committed	46	146	237	340	367	367	401	399	441	506
Restricted	7,471	7,765	8,827	11,962	4,272	11,141	8,462	7,925	9,395	9,725
Assigned	-	-	-	-	-	-	-	-	6,368	5,774
Unassigned	12,016	9,911	9,609	10,031	16,114	17,389	45,280	48,755	33,126	24,840
Total General Fund	<u>\$ 19,753</u>	<u>\$ 18,086</u>	<u>\$ 18,801</u>	<u>\$ 22,424</u>	<u>\$ 20,866</u>	<u>\$ 29,400</u>	<u>\$ 54,615</u>	<u>\$ 58,301</u>	<u>\$ 50,933</u>	<u>\$ 42,654</u>
Pine Street Assisted Living Facility										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unassigned	-	-	-	-	-	-	-	-	-	-
Total Pine Street Assisted Living Facility	<u>\$ -</u>									
City Office/Public Safety Building										
Unassigned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	515	-	-	-	-	-	-	-	-	-
Total City Office/Public Safety Building	<u>\$ 515</u>	<u>\$ -</u>								
Fire Station Improvements										
Unassigned	\$ -	\$ -	\$ -	\$ -	\$ (392)	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	10,419	1,748	-	-	-	-	-
Total City Office/Public Safety Building	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,419</u>	<u>\$ 1,356</u>	<u>\$ -</u>					
All Other Governmental Funds										
Nonspendable	\$ 187	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10
Restricted	1,262	1,167	1,023	3,152	3,334	1,098	1,562	3,082	2,646	2,612
Committed	218	620	440	269	74	203	1,395	-	1,506	4,351
Unassigned	(285)	(182)	(5)	(695)	(925)	(1,204)	(1,482)	(857)	-	-
Total all other governmental funds	<u>\$ 1,382</u>	<u>\$ 1,605</u>	<u>\$ 1,458</u>	<u>\$ 2,726</u>	<u>\$ 2,483</u>	<u>\$ 97</u>	<u>\$ 1,475</u>	<u>\$ 2,225</u>	<u>\$ 4,152</u>	<u>\$ 6,973</u>

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Dollars in Thousands)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues:										
Ad valorem taxes	\$ 23,809	\$ 24,859	\$ 25,435	\$ 26,134	\$ 27,543	\$ 32,889	\$ 34,727	\$ 36,224	\$ 39,557	\$ 50,478
Other taxes and licenses	8,926	9,848	10,168	11,434	11,697	13,221	15,794	17,342	17,941	19,442
Unrestricted intergovernmental revenues	2,945	3,021	3,009	3,063	3,006	2,952	3,141	3,445	3,679	4,070
Restricted intergovernmental revenues	3,570	3,508	3,272	6,833	6,500	3,941	13,290	4,873	5,041	4,108
Sales and services	745	744	993	1,169	830	739	2,666	3,199	4,090	4,462
Investment earnings	204	299	349	889	706	106	72	1,980	2,640	2,074
Miscellaneous	908	1,350	1,040	1,264	1,395	3,662	4,437	1,377	1,920	1,286
Total revenues	41,107	43,629	44,266	50,786	51,677	57,510	74,127	68,440	74,868	85,920
Expenditures:										
General Government	6,122	7,132	10,455	8,468	7,948	7,207	10,661	12,127	16,843	16,364
Public safety	15,440	15,706	17,878	16,012	16,771	19,265	22,917	23,024	25,904	32,325
Public works	4,343	4,282	4,544	3,518	3,780	3,223	4,770	5,190	6,215	7,571
Community development	1,375	1,432	1,684	2,108	3,561	1,956	2,058	3,086	5,603	7,677
Parks and recreation	1,655	2,573	2,408	2,599	4,355	3,080	4,951	5,492	10,210	9,643
Capital Outlay	11,618	2,315	1,184	9,990	2,529	2,556	341	145	74	1,600
Debt service:										
Principal	3,693	4,717	4,374	5,200	26,237	5,428	9,951	10,674	10,228	10,696
Interest and fees	3,146	2,826	3,111	3,288	3,273	1,678	4,521	4,188	3,886	3,676
Total expenditures	47,392	40,983	45,638	51,183	68,454	44,393	60,171	63,926	78,963	89,552
Excess of revenues over (under) expenditures	(6,285)	2,646	(1,372)	(397)	(16,777)	13,117	13,956	4,514	(4,095)	(3,632)
Other Financing Sources (Uses)										
Transfers from other funds	840	2,326	862	53	1,883	200	17,165	3,949	5,552	
Transfers to other funds	(3,174)	(7,267)	(3,063)	(5,106)	(6,948)	(7,159)	(9,650)	(86)	(5,997)	(9,197)
Lease Liability Issued	-	-	-	-	-	-	2,956	-	499	-
Subscription Liability Issued	-	-	-	-	-	-	-	6	56	2,166
Proceeds of installment financing	-	335	14,560	-	18,685	-	-	-	-	-
Total other financing sourcces (uses)	(2,334)	(4,606)	12,359	(5,053)	13,620	(6,959)	10,471	(80)	(1,493)	(1,479)
Special item - sale of land	-	-	-	1,278	-	-	1,215	-	-	-
Net change in fund balances	\$ (8,619)	\$ (1,960)	\$ 10,987	\$ (4,172)	\$ (3,157)	\$ 6,158	\$ 25,642	\$ 4,434	\$ (5,588)	\$ (5,111)
Debt service as a percentage of noncapital expenditures	26.57%	21.00%	18.54%	21.07%	48.22%	19.63%	25.18%	23.81%	20.56%	16.05%

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

ASSESSED VALUE OF TAXABLE PROPERTY

Last Ten Fiscal Years

Fiscal Year	Real Property	Personal Property	Public Service Companies ⁽²⁾	Total Assessed Value	Total Direct Tax Rate ⁽³⁾
2016 ⁽¹⁾	\$ 3,193,371,079	\$ 470,988,564	\$ 81,056,490	\$ 3,745,416,133	0.6300
2017 ⁽¹⁾	3,318,942,258	527,476,822	83,163,104	3,929,582,184	0.6300
2018	3,365,940,833	570,541,905	83,307,314	4,019,790,052	0.6300
2019	3,474,735,157	572,536,247	90,869,368	4,138,140,772	0.6300
2020 ⁽¹⁾	3,667,643,181	612,586,049	98,253,902	4,378,483,132	0.6300
2021 ⁽¹⁾	4,411,304,057	683,109,991	101,976,054	5,196,390,102	0.6300
2022	4,598,975,585	758,142,571	104,077,855	5,461,196,011	0.6300
2023	4,789,231,465	826,740,932	111,400,130	5,727,372,527	0.6300
2024 ⁽¹⁾	5,247,330,648	886,237,793	117,044,024	6,250,612,465	0.6300
2025 ⁽¹⁾	7,931,250,468	963,963,525	126,418,964	9,021,632,957	0.5595

Notes: ⁽¹⁾ Increases in FY 2017, FY 2021 and FY2025 include Cabarrus County revaluation. Increase in FY 2016, FY 2020, FY 2024 includes Rowan County revaluation

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

⁽³⁾ Tax rates are per \$100 of assessed value.

CITY OF KANANPOLIS, NORTH CAROLINA**TABLE 6****DIRECT AND OVERLAPPING PROPERTY TAX RATES****Last Ten Fiscal Years****(Rate per \$100 of Assessed Value)**

	2016 ⁽¹⁾	2017 ⁽²⁾	2018	2019	2020 ⁽³⁾	2021 ⁽⁴⁾	2022	2023	2024 ⁽⁵⁾	2025 ⁽⁶⁾
City of Kannapolis:										
General Fund	0.6300	0.6300	0.6300	0.6300	0.6300	0.6300	0.6300	0.6300	0.6300	0.5595
County Rates:										
Cabarrus	0.7000	0.7000	0.7200	0.7400	0.7400	0.7400	0.7400	0.7400	0.7400	0.5760
Rowan	0.6625	0.6625	0.6625	0.6575	0.6575	0.6575	0.6575	0.6575	0.5800	0.5800

Notes:

- (1) Real property was revalued by Rowan County on January 1, 2015
- (2) Real property was revalued by Cabarrus County on January 1, 2016
- (3) Real property was revalued by Rowan County on January 1, 2019
- (4) Real property was revalued by Cabarrus County on January 1, 2020
- (5) Real property was revalued by Rowan County on January 1, 2023
- (6) Real property was revalued by Cabarrus County on January 1, 2024

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 7

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

Taxpayer	Type of Business	Fiscal Year 2025			Percentage of Total Assessed Valuation
		Assessed Valuation	Rank		
Castle and Cooke NCRC	Real Estate	\$ 127,394,264	1		1.41%
WOP Coddle Creek LLC	Real Estate	99,870,070	2		1.11%
Concord Owner LP	Real Estate	92,478,890	3		1.03%
West Shore Vive LLC	Real Estate	89,901,300	4		1.00%
Gordan Food Service Inc	Food Service	86,287,502	5		0.96%
SREIT Afton Ridge LLC	Real Estate	74,322,820	6		0.82%
Stewart Haas Racing LLC	Racing	67,345,582	7		0.75%
Shoe Show Inc	Shoe Retailer	66,083,868	8		0.73%
Duke Energy Carolina LLC	Utility	65,525,670	9		0.73%
Denholtz Vida Owner LLC	Real Estate	60,691,610	10		0.67%
Total		\$ 829,901,576			9.20%
Fiscal Year 2016					
Taxpayer	Type of Business	Assessed Valuation	Rank	Percentage of Total Assessed Valuation	
Castle and Cooke NCRC	Real Estate	\$ 203,761,020	1	5.18%	
Castle and Cooke LLC	Real Estate	63,116,120	2	1.60%	
Atlantic American Properties, Inc./ Club at Irish Creek	Real Estate	45,596,920	3	1.16%	
Trinity of Cabarrus LTD/ Shoe Show	Shoe Distribution	36,821,410	4	0.94%	
Duke Energy Corporation	Utility	34,062,325	5	0.87%	
Wachovia Development Group	Warehousing	33,779,270	6	0.86%	
Afton Ridge Joint Venture 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%	
Total		\$ 509,494,316		12.97%	

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

PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year (Original Levy)				Total Adjusted Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
	Discoveries	Abatements	Amount	Percentage of Adjusted Levy		Amount	Percentage of Adjusted Levy		Amount	Percentage of Adjusted Levy
2016	\$ 23,502,259	\$ 137,451	\$ (29,535)	\$ 23,610,175	\$ 23,193,274	98.23%	\$ 404,287	\$ 23,597,561	99.95%	
2017	24,743,633	192,065	(148,154)	24,787,544	24,421,144	98.52%	353,282	24,774,426	99.95%	
2018	25,236,150	187,941	(68,744)	25,355,347	25,000,952	98.60%	334,853	25,335,805	99.92%	
2019	25,989,681	245,309	(122,270)	26,112,720	25,672,563	98.31%	423,712	26,096,275	99.94%	
2020	27,603,268	132,477	(115,083)	27,620,662	27,054,264	97.95%	539,295	27,593,559	99.90%	
2021	32,589,032	278,648	(88,187)	32,779,493	32,302,475	98.54%	436,179	32,738,654	99.88%	
2022	34,303,107	171,743	(45,629)	34,429,221	34,068,390	98.95%	312,083	34,380,473	99.86%	
2023	36,094,338	225,652	(181,259)	36,138,731	35,776,448	99.00%	299,938	36,076,386	99.83%	
2024	39,426,182	146,063	(134,170)	39,438,075	39,076,420	99.08%	254,190	39,330,610	99.73%	
2025	50,464,807	201,895	(167,480)	50,499,222	50,022,884	99.06%	-	50,022,884	99.06%	

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 ⁽¹⁾	Per Capita ⁽²⁾
2016	-	0.00%	-
2017	-	0.00%	-
2018	-	0.00%	-
2019	-	0.00%	-
2020	-	0.00%	-
2021	-	0.00%	-
2022	-	0.00%	-
2023	-	0.00%	-
2024	-	0.00%	-
2025	-	0.00%	-

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

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

⁽²⁾ See Table 14 for population data.

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Governmental Activities								
Fiscal Year	Installment Obligations	U.S. Gov. Guaranteed Notes	Special Obligation Bonds	Limited Obligation Bonds	Limited Obligation Bond Premium	Leases	SBITAs	
2016	\$ 8,622,690	\$ 453,000	\$ -	\$ 53,045,000	\$ 2,151,700	\$ -	-	
2017	7,751,829	250,000	-	49,940,000	2,030,477	-	-	
2018	10,083,071	200,000	-	57,845,000	1,909,254	-	-	
2019	8,772,794	150,000	-	54,005,000	1,788,031	-	-	
2020	24,785,249	100,000	-	30,490,000	1,666,808	-	-	
2021	24,179,980	50,000	7,330,000	99,298,003	1,545,585	-	-	
2022	20,769,631	-	6,597,000	93,546,000	1,424,362	2,860,461	-	
2023	14,817,462	-	5,864,000	87,799,005	1,303,139	2,086,978	-	
2024	11,863,308	-	5,131,000	82,057,006	1,181,916	1,803,636	39,181	
2025	10,603,154	-	4,398,000	76,315,007	1,060,693	1,026,537	21,098	

Business-type Activities								
Fiscal Year	Installment Obligations	Special Obligation Bonds	W/S Revenue Bonds	Limited Obligation Bonds	Total Primary Government	Per Capita ⁽¹⁾	Percentage of Personal Income ⁽¹⁾	
2016	\$ 5,857,523	\$ 11,000,000	\$ 29,365,628	\$ -	\$ 110,495,541	\$ 2,395	1.63%	
2017	5,279,889	10,266,000	27,333,327	-	102,851,522	2,150	1.43%	
2018	8,811,301	9,532,000	49,112,298	14,900,000	152,392,924	3,122	1.96%	
2019	7,387,793	8,798,000	46,683,000	66,155,000	193,739,618	3,893	2.37%	
2020	5,971,669	8,064,000	44,064,000	65,410,000	180,551,726	3,469	1.92%	
2021	1,953,269	-	53,022,200	5,949,997	193,329,034	3,640	2.01%	
2022	1,038,648	-	60,312,000	5,599,996	192,148,098	3,529	1.82%	
2023	419,974	-	56,183,000	5,249,995	173,723,553	3,073	1.59%	
2024	309,552	-	51,903,000	4,899,994	159,188,593	2,822	1.47%	
2025	200,287	-	47,543,000	4,549,994	145,717,770	2,525	*	

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

* Information not yet available.

⁽¹⁾ See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

As of June 30, 2025

(Dollars in Thousands)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
Cabarrus County General Obligation Debt	\$ 7,725	9.80%	\$ 757
Cabarrus County COPS/LOBS	686,223	9.80%	67,250
Cabarrus County Capital Leases/Installment Debt / SBITAS	6,311	9.80%	618
Rowan County General Obligation Debt	71,055	3.12%	2,217
Rowan County Installment Financing	47,956	3.12%	1,496
Rowan County Leases / SBITAS	1,310	3.12%	41
Subtotal, overlapping debt			72,379
City direct debt			<u>93,424</u>
Total direct and overlapping debt			<u>\$165,804</u>

Sources: Debt outstanding data and assessed value data used to estimate applicable percentages provided by North Carolina Department of Revenue sales and use tax distribution.

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 However, this does not imply that every taxpayer is a resident -- and therefore responsible for repaying the debt -- of each overlapping government. 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.

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.

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

(Dollars in Thousands)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Assessed Value of Property	\$ 3,745,416	\$ 3,929,582	\$ 4,019,790	\$ 4,138,141	\$ 4,378,483	\$ 5,196,390	\$ 5,461,196	\$ 5,727,373	\$ 6,250,612	\$ 9,021,633
Debt Limit, 8% of Assessed Value (Statutory Limitation)	299,633	314,367	321,583	331,051	350,279	415,711	436,896	458,190	500,049	721,731
Debt applicable to debt limitations:										
Special obligation bonds	11,000	10,266	9,532	8,798	8,064	7,330	6,597	5,864	5,131	4,398
Limited obligation bonds	55,197	49,940	74,654	121,948	114,872	106,793	100,570	94,352	88,139	81,926
Installment obligations	14,933	13,282	19,094	16,311	13,552	26,183	19,121	15,237	12,173	10,803
Total net debt applicable to limitations	<u>81,130</u>	<u>73,488</u>	<u>103,280</u>	<u>147,057</u>	<u>136,488</u>	<u>140,306</u>	<u>126,288</u>	<u>115,453</u>	<u>105,443</u>	<u>97,127</u>
Legal debt margin	\$ 218,503	\$ 240,879	\$ 218,303	\$ 183,994	\$ 213,791	\$ 275,405	\$ 310,608	\$ 342,737	\$ 394,606	\$ 624,604
Total net debt applicable to the limit as a percentage	27.08%	23.38%	32.12%	44.42%	38.97%	33.75%	28.91%	25.20%	21.09%	13.46%

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		Less:		Net		Debt Service				
	Service Charges	Operating Expenses	Available Revenue	Principal	Interest	Total					
2016	\$ 16,327,038	\$ 10,556,224	\$ 5,770,814	\$ 1,959,530	\$ 1,148,822	\$ 3,108,352	1.86				
2017	15,816,830	11,181,279	4,635,551	2,032,301	1,082,596	3,114,897	1.49				
2018	17,256,872	10,706,300	6,550,572	2,098,027	1,121,971	3,219,998	2.03				
2019	17,536,939	12,020,328	5,516,611	2,429,300	1,934,634	4,363,934	1.26				
2020	19,415,386	13,402,746	6,012,640	2,619,000	1,738,616	4,357,616	1.38				
2021	21,031,115	13,979,022	7,052,093	2,716,800	1,645,178	4,361,978	1.62				
2022	23,679,136	14,728,848	8,950,288	3,819,000	1,326,227	5,145,227	1.74				
2023	24,777,893	16,524,779	8,253,114	4,309,469	1,512,113	5,821,582	1.42				
2024	25,220,086	18,699,458	6,520,628	4,280,000	1,339,987	5,619,987	1.16				
2025	27,424,671	20,742,154	6,682,517	4,360,000	1,260,937	5,620,937	1.19				

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

Utility service charges equal total operating revenues plus investment earning.

Principal and interest of revenue bonds only are shown here.

Coverage equals net revenues divided by total debt service requirements.

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Fiscal Years

Year	Population ⁽¹⁾	Personal Income ⁽²⁾		Per Capita Personal Income ⁽²⁾		Public School Enrollment ⁽³⁾	Unemployment Rate ⁽⁴⁾	
		(Dollars in Thousands)		Cabarrus County	Rowan County		Cabarrus County	Rowan County
		Cabarrus County	Rowan County	Cabarrus County	Rowan County		Cabarrus County	Rowan County
2016	46,144	7,799,648	4,779,187	39,640	34,348	5,829	5.4%	5.8%
2017	47,839	8,286,025	4,940,633	41,103	35,307	5,249	3.9%	4.3%
2018	48,806	9,085,784	5,202,978	43,920	36,994	5,375	3.7%	4.0%
2019	49,761	9,556,853	5,380,568	45,220	38,089	5,516	3.3%	4.4%
2020	52,053	11,002,886	6,230,504	46,615	40,213	5,626	3.6%	4.0%
2021	53,114	11,260,526	6,310,722	49,679	43,724	5,415	3.4%	4.7%
2022	54,446	12,407,280	6,927,867	53,647	46,763	5,362	3.2%	3.6%
2023	56,534	12,910,767	7,031,826	54,754	46,990	5,379	3.0%	3.2%
2024	56,417	12,910,767	7,031,826	54,754	46,990	5,358	4.1%	4.1%
2025	57,706	*	*	57,694	49,008	5,290	3.1%	3.2%

* Information not yet available.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 15

PRINCIPAL EMPLOYERS

Current and Nine Years Ago

Employer	2025			2016		
	Employees	Rank	Percentage of Total Cabarrus County and Rowan County Employment	Employees	Rank	Percentage of Total Cabarrus County and Rowan County Employment
Amazon(CLT3 Location only)	900	1	0.53%			
Kannapolis City Schools	800	2	0.43%	812	2	0.54%
Shoe Show(Warehouse only)	800	3	0.43%	881	1	0.50%
City of Kannapolis	599	4	0.32%	326	6	0.20%
Walmart SuperCenter	440	5	0.24%			
Prime Beverage Group	358	6	0.19%			
Gordon Food Service	320	7	0.17%			
NC Research Campus	307	8	0.16%	351	5	0.18%
Cabarrus Health Alliance	281	9	0.15%	221	9	0.22%
Target	260	10	0.14%	303	7	0.14%
Cabarrus County Schools				413	3	0.19%
Wayne Brothers				381	4	0.23%
Stewart-Haas Racing				291	8	0.25%
Stanley Works				217	10	0.13%
Total	<u><u>5,065</u></u>		<u><u>2.71%</u></u>	<u><u>4,196</u></u>		<u><u>2.58%</u></u>

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

PROPERTY VALUES AND CONSTRUCTION

Last Ten Fiscal Years

Fiscal Year Ended June 30	New Construction				Total Value Of New Construction	\$ 5,632,044	Total Additions And Alterations	Total Value Of New Construction And Additions				
	Commercial Construction		Residential Construction									
	Number of Units	Value	Number of Units	Value								
2025	159	\$ 64,188,272	767	\$ 81,984,004	\$ 140,540,232	\$ 5,632,044	\$ 146,172,276					
2024	159	155,195,655	1063	124,911,783	280,107,437	26,566,242	306,673,679					
2023	149	71,668,408	977	152,545,006	224,213,414	5,237,196	229,450,610					
2022	125	42,986,885	450	69,738,237	112,725,122	3,116,836	115,841,958					
2021	141	11,827,508	888	184,545,267	196,372,775	12,713,586	209,086,361					
2020	112	16,175,070	866	94,639,184	110,814,254	12,640,016	123,454,270					
2019	34	37,660,961	283	39,253,207	76,914,168	93,464,274	170,378,442					
2018	87	125,834,874	315	45,676,825	171,511,699	7,556,150	179,067,849					
2017	94	40,679,619	321	35,912,500	76,592,119	6,735,024	83,327,143					
2016	81	57,578,745	305	45,456,760	103,035,505	11,296,388	114,331,893					

FULL-TIME EQUIVALENT COUNTY GOVERNMENT EMPLOYEES BY FUNCTION

Last Ten Fiscal Years

Function/Program	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
General government	40	41 ⁽⁴⁾	43	45	53	53	57	61	61	63
Public safety	196	201	206	208	209	210	214	215	222	225
Public works admin and engineering	9	9	9	9	9	9	11	9	9	9
Parks and recreation	8	9	10	12	18	18	23	24	25	28
Streets and sign shops	12	12	13	15	15	15	15	16	16	17
Stormwater	13	16	16	16	16	16	17	17	17	17
Environmental	1	0	4	4	6	6	5	9	10	10
Water - Sewer billing and collections	7	8	8	8	9	10	12	14	14	15
Water - Sewer distribution	29	29	29	33	38	39	40	43	44	45
Water treatment plant	11	11	11	14	15	15	15	14	18	19
Total	326	336	349	364	388	391	409	422	436	448

Source: Finance Department

Notes: This schedule represents number of persons employed as of June 30th of each year.

Full time personnel work 2,080 hours per year (less vacation and sick leave) with the exception of Police and Fire which work 2184 and 2758 hours per year respectively.

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

(3) 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.

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

(5) Data shows that in FY 2020, Information Technology was brought in-house with 5 employees

(6) Data shows that in FY 2020, a new Water Crew of 5 were hired to assist with water and tap installation

Data shows that in FY 2022, 4 Police Officers were hired, 4 Park Maintenance Technicians, 1 Assistant Athletic Director, 1 Planner, 1 Code Enforcement Officer, 1 Building Maintenance Technician, 1 Engineering Technician, 1 Construction Maintenance Worker, 1 Locator in Water Resources, 2 Customer Service Advocates and the reclassification of 1 Part Time accountant to Full Time and moving the Director of Transportation, Stormwater and Environmental from the Environmental Fund

(7) to the Stormwater Fund.

OPERATING INDICATORS BY FUNCTION

Last Ten Fiscal Years

Function/Program	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
General Government:										
Collection rate for city taxes	98.23%	98.52%	98.60%	98.31%	97.95%	98.54%	98.95%	98.99%	99.08%	99.06%
Applications for employment processed	1,419	1,912	1,845	1,834	699	669	719	1,692	3,387	2,259
Hiring rate	8.97%	3.30%	2.39%	2.61%	9.47%	13.60%	13.10%	13.10%	7.00%	3.76%
Parks and Recreation:										
Concerts presented by the City	19	22	23	24	6	4	12	20	12	11
Shelter reservations	1021	1528	1565	1601	505	448	928	994	1034	1477
Police:										
Homicide and death investigations	71	64	100	96	79	134	106	98	88	97
Assault investigations	49	42	48	47	42	42	49	66	55	69
Fire:										
Response to all in City incidents within six minutes	79.0%	85.0%	82.0%	80.0%	81.5%	78.0%	81.0%	78.0%	78.0%	60.0%
Average response time (minutes) for fire calls	4:19	3:25	3:31	3:19	3:53	4:22	4:03	4:32	4:31	2:09
Number of fire inspections for businesses	5,946	1,058	687	234	1,200	759	563	670	720	659
Storm Water:										
Shoulder work and ditches cleared (miles)	3.9	1.4	2.1	3.1	2.1	2.3	1.5	4.95	1.28	3
Drainage structures (repaired & constructed)	16	31	37	29	46	38	32	43	40	27
Streets And Sign Shop:										
Reconstruction resurfacing (miles)	3.65	3.84	2.94	3.16	0.73	1.40	1.10	3.18	2.26	5.31
Pavement repairs (including potholes)	7,370	7,370	5,322	6,387	4,678	5,297	4,419	5,263	4,084	5,222
Street name signs installed or repaired	218	218	239	316	293	293	117	1,087	282	308
Information signs installed or repaired	1,740	1,740	1,520	1,856	1,330	1,330	1,118	920	2,154	713
Water Sewer Distribution:										
Water services installed	46	93	150	215	157	144	159	62	114	105
Sewer services installed	10	54	127	189	126	130	179	56	126	91

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 18 (CONTINUED)

OPERATING INDICATORS BY FUNCTION

Last Ten Fiscal Years

Function/Program	2016	2017	2018	2019	2020	2021 (4)	2022	2023	2024	2025
Water Treatment Plant:										
Total water treated (per billion gallons)	1.550	1.410	1.290	1.360	1.390	1.450	1.650	1.740	2.026	2.218
Unit cost of treatment (\$/1,000 Gal)	1.490	1.490	1.340	1.360	1.260	1.360	1.570	1.520	1.48	2.33
Water Sewer Billing Collections:										
Average number of walk in customers	6,421	4,180	6,325	5,765	2,751	5,668	4,719	4,120	3,796	723
Water and Sewer collection percentage	97.69%	97.57%	97.80%	97.80%	97.47%	77.00%	98.43%	96.94%	98.06%	94.00%

Sources: Various City departments.

NOTES:

(1) Data is average per month

(2) Walk-ins impacted by COVID-19 pandemic with building being closed

NA Data not available

(4) The first ½ of FY21 collections were suspended for months due to COVID.

Regular collections were restarted in late October early November of 2020 and fee assessments started again in April of 2021, but it was not enough time to recover before year end

2025 lower than average due to customer service being closed due to renovations

CAPITAL ASSET STATISTICS BY FUNCTION

Last Ten Fiscal Years

Function/Program	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Parks and recreation:										
Park facilities	8	8	8	8	11	11	13	13	14 ⁽²⁾	15
Acreage	128	172	172	172	257	257	262	262	262	262
Picnic shelters/structure	15	15	15	15	15	15	15	15	15	15
Softball fields	4	4	4	4	3	3	4	4	4	4
Playgrounds	7	7	7	7	6	6	6	6	6	6
Soccer fields	1	1	1	1	1	1	2	2	2	2
Fire Protection:										
Stations	5	5	5	5	5	5	5	5	5	5
Fire trucks (pumper)	8	8	9	9	9	9	9	9	9	9
Fire trucks (ladder)	2	2	3	3	3	3	3	3	3	3
Police:										
Patrol cars	60	66	66	66	68	76	78	79	78	76
Total police vehicles	109	114	114	114	110	113	113	120	121	132
Streets:										
Miles of streets	227	232	232	232	232	236	236	245	246	250
Water:										
Miles of water mains	324	335	335	335	346	351	352	385	386	389.2
Wastewater:										
Miles of sanitary sewers	317	325	325	325	326	331	331	363	345	349.6
Treatment capacity ⁽¹⁾	26	27	27	27	27	15	15	15	15	30

Sources: Various City departments.

⁽¹⁾ Data is by Million Gall

⁽²⁾ The addition of the Gem Theater in "Park Facilities"
The addition of the Swanee in "Park Facilities" 2025

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Compliance Section

- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance Required by the Uniform Guidance and the State Single Audit Implementation Act
- Schedule of Findings, Responses, and Questioned Costs
- Corrective Action Plan
- 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 (*Government Auditing Standards*), 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, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 5, 2025.

Report on 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) as a basis for designing 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 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.

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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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings, Responses and Questioned Costs as item 2025-001 that we consider to be a material weakness.

Report on 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, noncompliance with which could have a direct and material effect on the financial statements. 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*.

City of Kannapolis' Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City of Kannapolis' response to the finding identified in our audit and described in the accompanying Schedule of Findings, Responses and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P. A.

Hickory, North Carolina

December 5, 2025

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& ASSOCIATES, CPAs, P.A.

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Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance Required by the 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

Opinion on Each Major State Program

We have audited the City of Kannapolis, North Carolina's, compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the City of Kannapolis' major state programs for the year ended June 30, 2025. 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.

In our opinion, the City of Kannapolis complied, in all material respects, with the 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, 2025.

Basis for Opinion on Each Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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We are required to be independent of the City of Kannapolis and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major state program. Our audit does not provide a legal determination of the City of Kannapolis' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City of Kannapolis' state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material non-compliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Kannapolis' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance and the State Single Audit Implementation Act will always detect material non-compliance when it exists. The risk of not detecting material non-compliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City of Kannapolis' compliance with the requirements of each major state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material non-compliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Kannapolis' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the City of Kannapolis' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of the City of Kannapolis' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P. A.
Hickory, North Carolina
December 5, 2025

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CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2025

1. Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(s) identified? None reported

Non-compliance material to financial statements noted? No

State Awards

Internal control over major state programs:

- Material weakness (es) identified? No
- Significant deficiency(s) identified? None reported

Type of auditor's report issued on compliance for major state programs Unmodified

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

Identification of major state programs:

Program Name

Powell Bill

Auditee qualified as low-risk auditee? No

CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2025

2. Findings Related to the Audit of the Basic Financial Statements

Material Weakness

Finding 2025-001

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

Condition: During the year ended June 30, 2025, management determined a quarterly expense was not correctly included in the fiscal year 2024 accounts payable. A restatement was required to accurately report the net position of the City as of June 30, 2024.

Effect: The prior year financial statements were misstated.

Cause: Misapplication of current accounting guidance related to the accounting for accounts payable.

Recommendation: Management should implement additional procedures to ensure proper accounting and reporting.

Name of Contact Person: Brian Roberts, Finance Director

Views of Responsible Officials and Planned Corrective Action: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

3. Findings and Questioned Costs Related to the Audit of State Awards

None reported



CITY OF KANNAPOLIS, NORTH CAROLINA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2025

Material Weakness

Finding 2025-001

Name of Contact Person: Brian Roberts, Finance Director

Corrective Action: This was an oversight due to the timing of when the quarterly invoice was received versus the normal timeline for the processing of prior year accounts payable. Financial staff will revise internal processing steps following the normal year-end accounts payable cutoff to further review incoming invoices to ensure they are recorded in the correct fiscal year. The Finance Director will communicate this revised procedure to all departmental staff.

Proposed Completion Date: Immediately.

CITY OF KANNAPOLIS, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2025**

Finding: 2024-001

Status: Corrected

CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

Grantor/Pass-Through Grantor/Program Title	Federal AL Number	State/ Pass-Through Grant Number	FY25 Federal (Direct and Pass-Through) Expenditures	FY25 State Expenditures	FY25 Local Expenditures	Pass-Through to Subrecipients Expenditures
U.S. Department of Housing and Urban Development:						
Office of Community Planning and Development						
Direct Program:						
CDBG Entitlement/Special Purpose Grants Cluster						
2017 Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-37-0017	\$ 250	\$ -	\$ -	\$ -
2018 Community Development Block Grants/Entitlement Grants	14.218	B-18-MC-37-0017	1,737	-	-	-
2019 Community Development Block Grants/Entitlement Grants	14.218	B-19-MC-37-0017	30,001	-	-	-
2020 Community Development Block Grants/Entitlement Grants	14.218	B-20-MC-37-0017	16,329	-	-	-
2021 Community Development Block Grants/Entitlement Grants	14.218	B-21-MC-37-0017	81,637	-	-	-
2022 Community Development Block Grants/Entitlement Grants	14.218	B-22-MC-37-0017	77,759	-	-	-
2023 Community Development Block Grants/Entitlement Grants	14.218	B-23-MC-37-0017	75,390	-	-	-
2024 Community Development Block Grants/Entitlement Grants	14.218	B-24-MC-37-0017	120,543	-	-	-
2022 CDBG/Entitlement Grants Program Income	14.218	B-22-MC-37-0017	38,184	-	-	-
Total CDBG Entitlement/Special Purpose Grants Cluster			<u>441,830</u>	<u>-</u>	<u>-</u>	<u>-</u>
Passed Through City of Concord						
2022 Home Investment Partnerships Program	14.239	M-22-DC-370209	68,023	-	-	-
2023 Home Investment Partnerships Program - HOMX	14.239	M-23-DC-370209	10,103	-	-	-
2023 Home Investment Partnerships Program-Program Income	14.239	M-23-DC-370209	6,740	-	-	-
2024 Home Investment Partnerships Program-Program Income	14.239	M-24-DC-370209	3,475	-	-	-
Total Home Investment Partnerships Program			<u>88,341</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>530,171</u>	<u>-</u>	<u>-</u>	<u>-</u>
U.S. Department of Transportation:						
Federal Highway Administration:						
Passed Through NC Department of Transportation:						
Highway Planning, Research and Construction Cluster (Note 4)						
Highway Planning and Construction	20.205	43713.1.6	42,080	-	10,520	-
Highway Planning and Construction	20.205	47301.2.1	<u>125,352</u>	<u>-</u>	<u>31,338</u>	<u>-</u>
Total Highway Planning, Research and Construction Cluster			<u>167,432</u>	<u>-</u>	<u>41,858</u>	<u>-</u>
Safe Streets and Roads for All	20.939	693JJ32340270	<u>37,980</u>	<u>9,495</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Transportation			<u>205,412</u>	<u>9,495</u>	<u>41,858</u>	<u>-</u>
Total Assistance - Federal Awards			<u>735,583</u>	<u>9,495</u>	<u>41,858</u>	<u>-</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

Grantor/Pass-Through Grantor/Program Title	Federal AL Number	State/ Pass-Through Grant Number	FY25 Federal (Direct and Pass-Through) Expenditures	FY25 State Expenditures	FY25 Local Expenditures	Pass-Through to Subrecipients Expenditures
State Awards:						
N.C. Department of Transportation:						
Economic Development Funds		TIP# U-6098/ WBS 47896.3.1	-	25,753	-	-
Powell Bill		2000077387	-	3,036,617	-	-
Total N.C. Department of Transportation			-	3,062,370	-	-
N.C. Department of Environmental Quality:						
Local Assistance for Stormwater Infrastructure		SRP-SW-ARP-0075	-	83,800	-	-
University of North Carolina Chapel Hill:						
Camino Community Development Latino Community Engagement			-	6,000	-	6,000
North Carolina Office of State Controller:						
State Asset Forfeiture			-	49,649	-	-
North Carolina Association of Chiefs of Police:						
Performance and Wellness Grant			-	16,620	-	-
Total Assistance - State Awards			-	3,218,439	-	6,000
Total Federal and State Awards			\$ 735,583	\$ 3,227,934	\$ 41,858	\$ 6,000

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, 2025. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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.

Note 3 - Indirect Cost Rate

City of Kannapolis has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4 - State Cluster

The following is clustered by the NC Department of Transportation and is treated separately for state audit requirement purposes: Highway Planning, Research and Construction