

**CITY OF KANNAPOLIS
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

CITY OF KANNAPOLIS NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

Prepared by:
Finance Department

Finance Director
Eric Davis

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November 30, 2017

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

The Comprehensive Annual Financial Report (CAFR) of the City of Kannapolis, North Carolina, for the fiscal year ended June 30, 2017, is hereby submitted. The financial statements were prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) and audited in accordance with generally accepted governmental auditing standards by a firm of licensed certified public accountants. We believe the data is presented in a manner designed to set forth fairly the financial position and results of operations for the City for fiscal year 2017.

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

The City of Kannapolis's financial statements have been audited by Martin Starnes & Associates, CPAs, P.A.; a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Kannapolis for the fiscal year ended June 30, 2017 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for

rendering an unmodified opinion that the City of Kannapolis's financial statements for the fiscal year ended June 30, 2017, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

PROFILE OF THE CITY

The City of Kannapolis is located in the north central portion of Cabarrus County, North Carolina and south central portion of Rowan County. These Counties are located in the east central part of the Metrolina Urban Region. The City, incorporated on December 11, 1984, covers an area of approximately 31 square miles. The approximate population is 47,000 and the assessed valuation for property tax purposes of \$3,861,825,581. The City is located approximately twelve miles northeast of the City of Charlotte, North Carolina, and abuts the City of Concord, North Carolina and is one of six incorporated municipalities in Cabarrus County and one of ten incorporated municipalities in Rowan County.

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

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

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

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

FACTORS AFFECTING FINANCIAL CONDITION

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

LOCAL ECONOMY - Kannapolis continues to enjoy a favorable economic environment and local indicators point to continued stability. The City's economy has benefited from the City's proximity to Charlotte and access to major interstate highways. Currently, Kannapolis' population of 47,000 makes it the 20th largest City in North Carolina. There are over 2,400 businesses that have a presence in Kannapolis.

Most notably, Kannapolis is home to the North Carolina Research Campus "*NCRC*"; a multi-purpose campus that houses state-of-the-art research equipment, research space and laboratory space that brings together researchers and scientists from the public and private sector to collaborate on advancements in biotechnology, nutrition and health. Three facilities are open and operating on the NCRC, including the D.H. Murdock Core Laboratory (the "*Core Lab*"), the Plants for Human Health Building and the Nutrition Research Building. The Core Lab is the centerpiece of the NCRC and houses the D.H. Murdock Research Institute as a provider of advanced research technologies to academic, government and industry scientists, including specialized high-tech equipment such as a 950-megahertz nuclear magnetic resonance

spectrometer that has the highest commercially available magnetic field strength currently available in the world. Duke University oversees operations in the Core Lab and is expanding its presence on the campus by populating additional office space throughout the campus. The Plants for Human Health Building houses researchers and staff of Dole Foods, North Carolina State University and Appalachian State University. The Nutrition Research Building houses researchers and staff of The University of North Carolina at Chapel Hill, The University of North Carolina at Greensboro, North Carolina A&T State University and North Carolina Central University. Private sector partners include Angiogen, Anatomics, Bio-Marker group, Dole Nutrition Institute, General Mills, Monsanto, RedHat, and Sensory Spectrum. In 2012, the US Food and Drug Administration began operations on the campus. The NCRC is considered an area of approximately 283 acres located in the downtown area of the City.

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

In December of 2015, the City of Kannapolis opened its new 100,000 square foot; \$32 million dollar; City Hall and Public Safety Headquarters. The City Hall and Public Safety Headquarters is a 100 year building outfitted with the latest technology to serve its citizens into the foreseeable future. The building will also include approximately 6,500 square feet of public meeting space; called The Laureate Center; available for rent to the public. The building is located on the research campus and maintains a consistent appearance to other buildings on the campus.

The City of Kannapolis has completely recovered from the recent national recession. Currently, there are over 40 residential sub-divisions in the City with plans to build approximately 7,500 new homes and apartments within the next decade. Kannapolis has also seen success in the field of commercial growth and development. Stewart-Haas racing has expanded its auto racing facilities to include the first Formula 1 racing team based in North America. The new F1 team began competing globally in 2016. Kannapolis also was successful in recruiting Gordon Food Service's new food distribution center. This \$58 million capital investment by Gordon Foods Service employs 275 well-paying jobs in the region. Additionally, Amazon will be constructing a new distribution warehouse, scheduled for opening in 2019. The new distribution center will be 1,000,000 square feet of space and will bring another 600 high paying jobs to the area, as well as adding approximately \$85 million to the local tax base.

In September of 2015, the City of Kannapolis completed a real estate transaction with Mr. D.H. Murdoch that saw the City acquire 46 acres of property in Downtown Kannapolis. The purchase includes eight blocks of buildings located on Oak Avenue, West Avenue, S. Main Street and West First Street, as well as property that housed the former Plant 4 Cannon Textile Mill. The existing buildings have a total of 653,395 square feet of available commercial and residential space.

The City has contracted with the non-profit Development Finance Initiative (DFI), at the UNC-CH School of Government to assist in the revitalization of downtown Kannapolis. DFI has assisted the City in recently adopting a long range strategic plan for the Center City. Currently, the City and DFI are working with LMG & Associates to redevelop and revitalize the first block in the downtown area. LMG was chosen through a competitive Request for Qualifications (RFQ) and proposal process. LMG's proposal will see approximately 270 multi-family apartments constructed, 20,000 square feet of retail space, and a 400 space parking deck. This Demonstration project will infuse the downtown revitalization with a \$72 million jumpstart.

The City is also currently in the design phase of a new 4,500 seat, \$42 million Sports Entertainment Complex. This facility will also host other types of civic events, as it is planned to be open 365 days a year. In preparation for the Sports Entertainment Complex construction, the City has completed asbestos removal, salvaged historical items, and demolished several buildings, including the K-Town Furniture building. To support all this new development, the City is currently working to upgrade all of its below ground infrastructure throughout the Downtown redevelopment area. This project includes moving, updating, and upgrading all utility lines in the area, as well as installing Street Scape and a Linear park totaling another \$26 million in public investment.

The City anticipates that it will take a minimum of 10 years to redevelop a majority of the available buildings and land in the downtown area. It is widely believed that the success of the downtown revitalization efforts will be the most important economic development factor impacting the City of Kannapolis for many years to come.

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

LONG TERM FINANCIAL PLANNING

In the spring of 2012, the Kannapolis City Council adopted a 10 year financial forecasting model. This model, scheduled for updating in 2018, details all significant revenues and expenditures across all funds for the city. In order to determine future revenues and expenditures, the City compiled ten prior years' audited data, along with the current year's budget estimates. This data was then used to identify trends that would assist city staff in accurately projecting future financial performance. This financial forecasting model has been integrated with the City's revised Capital Improvement Plan (CIP). The goal is to readily identify future revenue gaps, and to provide city leaders with the knowledge necessary to make changes in the current financial structure, while at the same time effectively planning for infrastructure improvements in order to meet the needs of a growing population.

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

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kannapolis, North Carolina for its comprehensive annual financial report for the fiscal year ended June 30, 2016. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

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

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

The timely presentation of this report could not have been accomplished without the assistance and dedication of the entire staff of the Finance Department. Special thanks go to Wendi Heglar, Deputy Finance Director, for her contribution to this report. We also appreciate the cooperation

and assistance of the other City departments, as well as the assistance of the City's independent auditor, Martin Starnes & Associates, CPAs, P.A. in preparing and assembling this report. In addition, we express our appreciation to the Mayor and City Council for their continued support and leadership in conducting the financial activities of the City in a responsible and progressive manner.

Respectfully submitted,

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

Eric Davis
Finance Director



Government Finance Officers Association

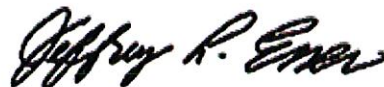
**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Kannapolis
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

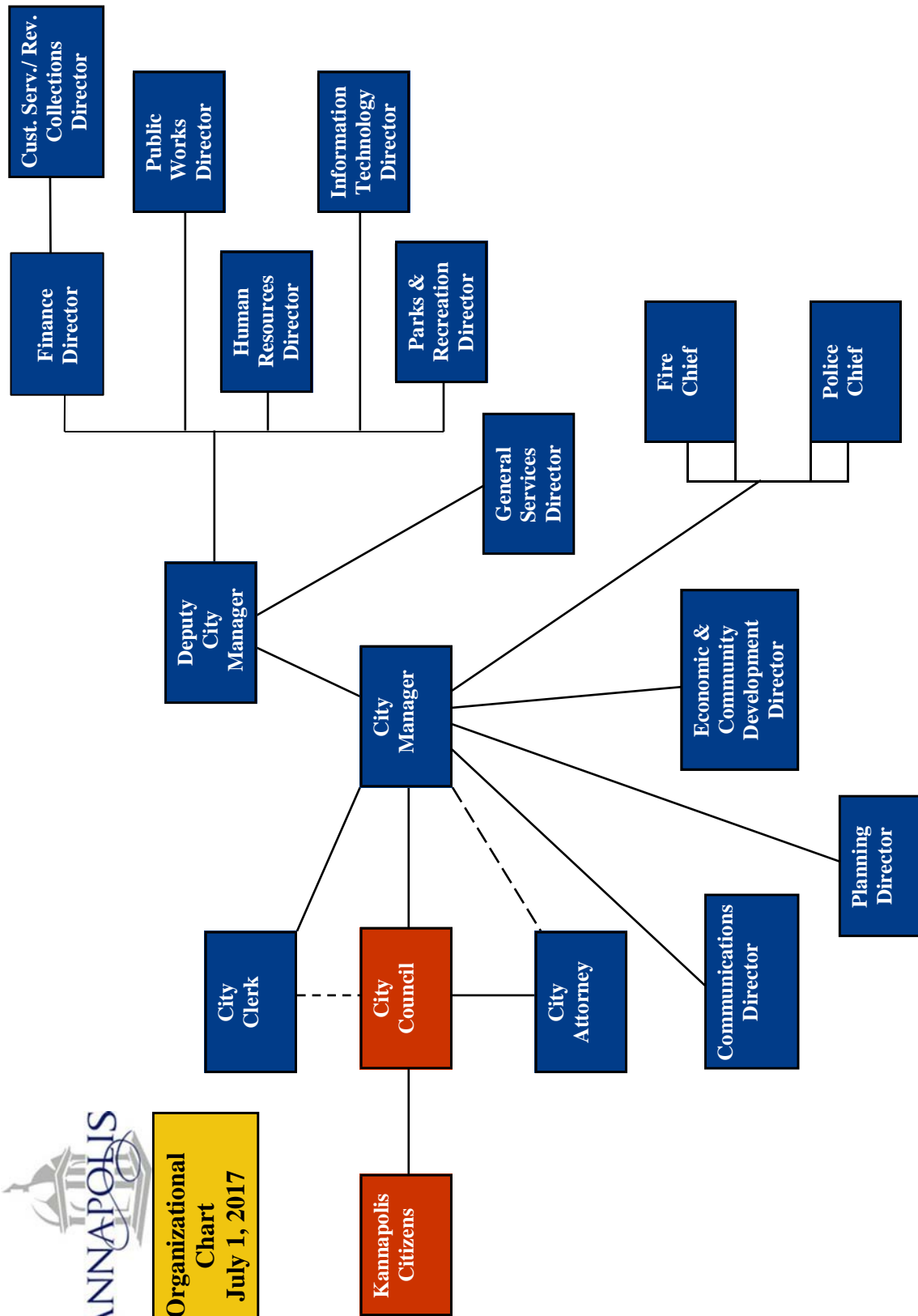
June 30, 2016



Executive Director/CEO



**Organizational
Chart
July 1, 2017**



**CITY OF KANNAPOLIS
NORTH CAROLINA**

MAYOR AND CITY OFFICIALS

MAYOR AND CITY COUNCIL

M. Darrell Hinnant – Mayor

Doug Wilson – Mayor Pro-tem

Roger D. Haas – Council Member

Ryan G. Dayvault – Council Member

Dianne Berry – Council Member

Darrell Jackson – Council Member

Tom Kincaid – Council Member

OFFICIALS

Michael B. Legg
City Manager

Bridgette L. Bell
City Clerk

Eric Davis
Finance Director

R. Edward Smith
Deputy City Manager

Tina H. Cline
Human Resources Director

Walter M. Safrit, II
City Attorney

Financial Section

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

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kannapolis, North Carolina as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Kannapolis' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

730 13th Avenue Drive SE ♦ Hickory, NC 28602 ♦ 828-327-2727 ♦ Fax 828-328-2324

13 South Center Street ♦ Taylorsville, NC 28681 ♦ 828-632-9025 ♦ Fax 828-632-9085

PO Box 5729 ♦ Statesville, NC 28687 ♦ 1710 Wilkesboro Hwy ♦ Statesville, NC 28625 ♦ 704-872-8923 ♦ Fax 704-872-4982

800-948-0585 ♦ www.martinstarnes.com

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kannapolis, North Carolina, as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 10 to the financial statements, for fiscal year ending June 30, 2017 the City of Kannapolis adopted new accounting guidance, Governmental Accounting Standards Board (GASB) No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kannapolis' basic financial statements. The introductory information, combining and individual fund financial statements, budgetary schedules, other schedules, and statistical section, as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures; including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017 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
November 30, 2017

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Management's Discussion and Analysis

As management of the City, we offer readers of the City of Kannapolis' (the "City") financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. 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 \$189,737,933 (*net position*).
- The government's total net position increased by \$6,040,777, due to increases in both the governmental activities and business-type activities net position.
- As of the close of the current fiscal year, the City of Kannapolis' governmental funds reported combined ending fund balances of \$19,690,924, which is a decrease of \$1,959,653 in fund balance. Approximately 47% of this total amount, or \$9,190,608, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,916,782.
- The City of Kannapolis' total debt decreased \$7,644,021, or 7%, during the current fiscal year. The City's only debt issuance for the year was \$735,000 for equipment and signage.
- The City holds the following underlying bond ratings:

Water and Sewer Revenue Bonds

Moody's	A1
Standard & Poor's	A+

Limited Obligation Bonds

Moody's	Aa3
Standard & Poor's	A+

Issuer Credit Rating

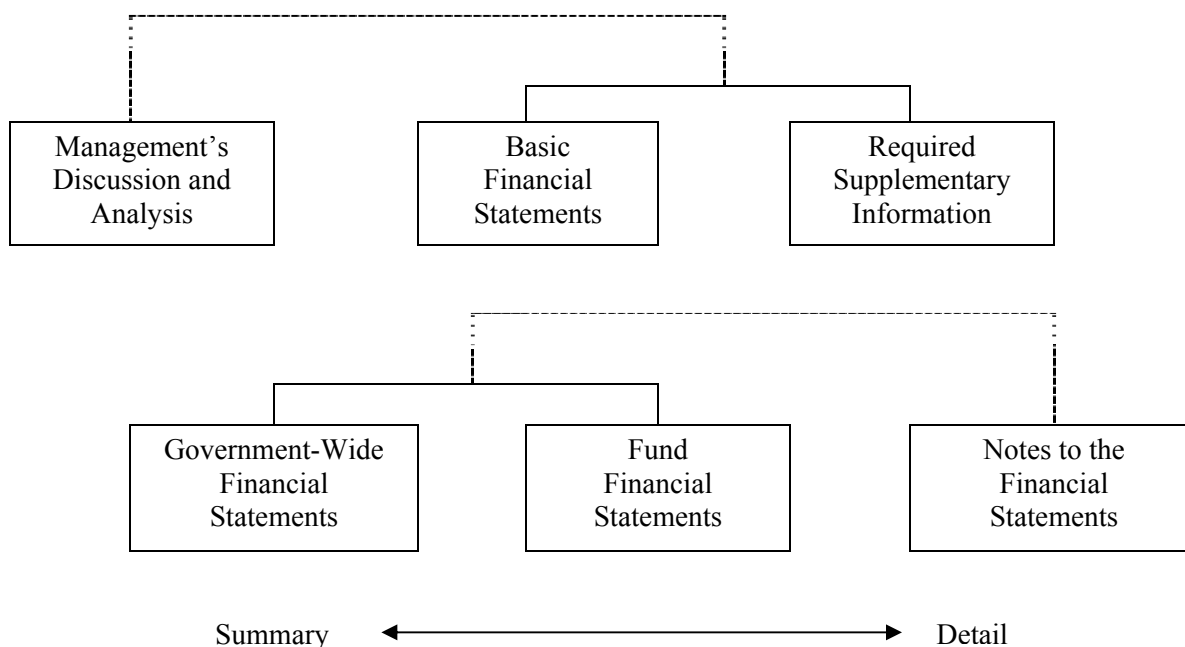
Standard & Poor's	AA-
Moody's	Aa2

Overview of Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 31 through 35 of this report.

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

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39 through 88 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 89 through 93 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 94 through 116 of this report for the City's governmental funds and on pages 117 through 129 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 (98.6%) 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 \$8,591,335 and (\$5,947,949), 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	
	2017	2016	2017	2016	2017	2016
Assets:						
Current assets	\$ 23,384,300	\$ 26,173,708	\$ 14,442,001	\$ 15,993,246	\$ 37,826,301	\$ 42,166,954
Capital assets	<u>175,036,319</u>	<u>174,434,638</u>	<u>112,620,584</u>	<u>108,277,346</u>	<u>287,656,903</u>	<u>282,711,984</u>
Total assets	<u>198,420,619</u>	<u>200,608,346</u>	<u>127,062,585</u>	<u>124,270,592</u>	<u>325,483,204</u>	<u>324,878,938</u>
Deferred Outflows of Resources	<u>4,313,556</u>	<u>865,894</u>	<u>947,294</u>	<u>190,075</u>	<u>5,260,850</u>	<u>1,055,969</u>
Liabilities:						
Long-term liabilities						
outstanding	80,024,742	74,883,621	44,938,022	45,937,742	124,962,764	120,821,363
Other liabilities	<u>9,047,092</u>	<u>9,920,184</u>	<u>6,176,886</u>	<u>6,111,179</u>	<u>15,223,978</u>	<u>16,031,363</u>
Total liabilities	<u>89,071,834</u>	<u>84,803,805</u>	<u>51,114,908</u>	<u>52,048,921</u>	<u>140,186,742</u>	<u>136,852,726</u>
Deferred Inflows of Resources	<u>674,281</u>	<u>952,788</u>	<u>145,098</u>	<u>193,656</u>	<u>819,379</u>	<u>1,146,444</u>
Net Position:						
Net investment						
in capital assets	115,399,035	110,342,120	71,695,512	62,886,481	187,094,547	173,228,601
Restricted	8,591,335	3,625,785	-	-	8,591,335	3,625,785
Unrestricted	<u>(11,002,310)</u>	<u>1,749,742</u>	<u>5,054,361</u>	<u>9,331,609</u>	<u>(5,947,949)</u>	<u>11,081,351</u>
Total net position	<u>\$112,988,060</u>	<u>\$ 115,717,647</u>	<u>\$ 76,749,873</u>	<u>\$ 72,218,090</u>	<u>\$ 189,737,933</u>	<u>\$ 187,935,737</u>

The City's total net position increased by \$6,040,777, while unrestricted net position decreased this fiscal year by \$17,029,300. Several particular aspects of the City's financial operations influenced the total net position:

- Long-term liabilities increased \$4,268,029 due to the implementation of Governmental Accounting Standards Board No. Statement 73. The General Fund increase in liabilities associated with the implementation was \$7,294,903 and \$1,143,428 in the Enterprise Funds.
- Net position was restated because of the implementation of Governmental Accounting Standards Board No. Statement 73. The governmental activities net position decreased \$3,169,427 and the business type activities decreased \$1,069,154.

City of Kannapolis' Changes in Net Position

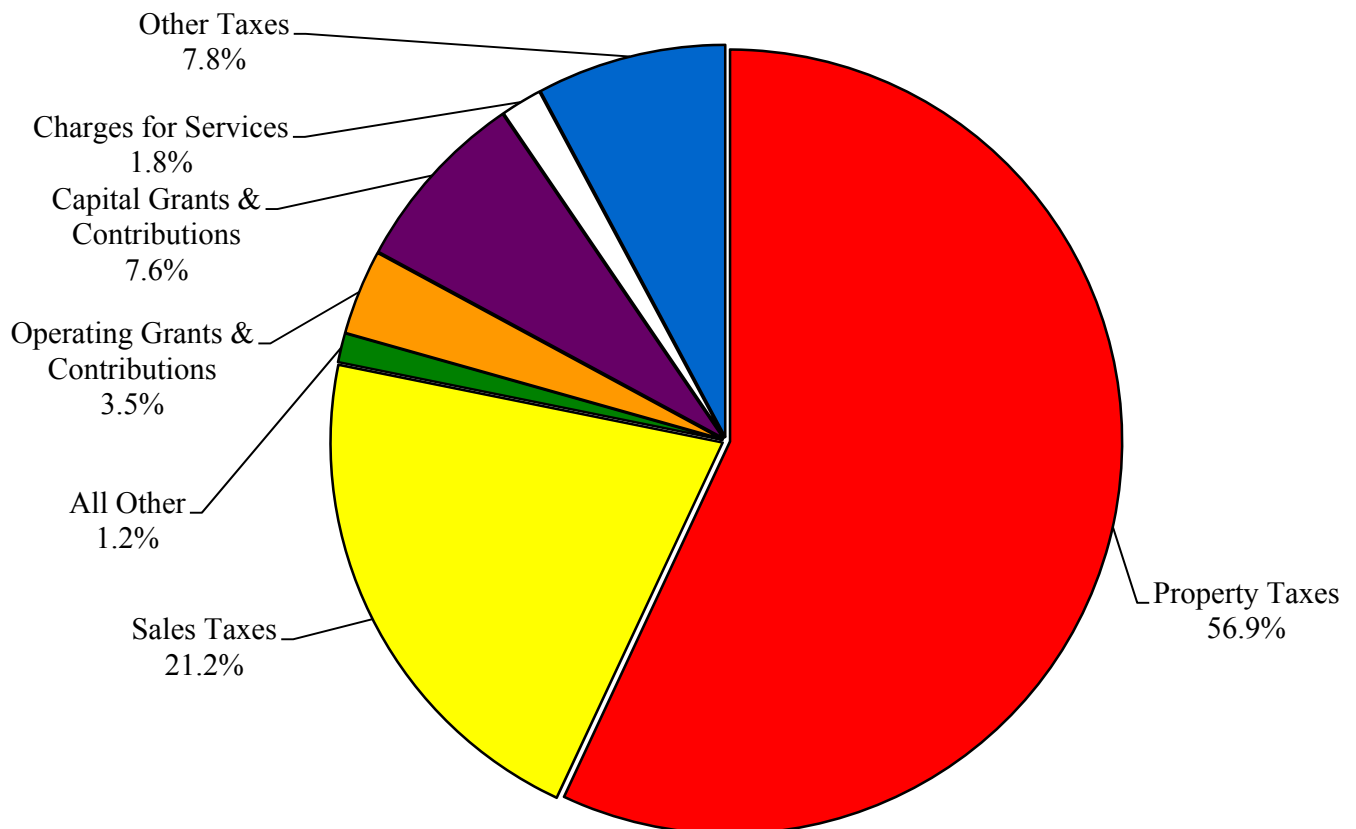
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 733,911	\$ 734,874	\$ 21,454,607	\$ 21,460,405	\$ 22,188,518	\$ 22,195,279
Operating grants and contributions	1,536,496	908,348	-	-	1,536,496	908,348
Capital grants and contributions	3,321,525	3,570,091	1,115,755	1,204,690	4,437,280	4,774,781
General revenues:						
Property taxes	24,802,152	23,620,440	-	-	24,802,152	23,620,440
Other taxes	12,658,714	11,674,720	-	-	12,658,714	11,674,720
Other revenues	509,147	399,642	16,193	12,585	525,340	412,227
Total revenues	<u>43,561,945</u>	<u>40,908,115</u>	<u>22,586,555</u>	<u>22,677,680</u>	<u>66,148,500</u>	<u>63,585,795</u>
Expenses:						
General government	7,325,045	6,674,373	-	-	7,325,045	6,674,373
Public safety	17,463,089	17,345,226	-	-	17,463,089	17,345,226
Public works	7,235,720	6,017,248	-	-	7,235,720	6,017,248
Community development	1,432,037	1,331,648	-	-	1,432,037	1,331,648
Parks and recreation	1,742,859	2,307,844	-	-	1,742,859	2,307,844
Water and sewer	-	-	14,819,100	14,130,523	14,819,100	14,130,523
Stormwater	-	-	1,900,745	1,683,401	1,900,745	1,683,401
Environmental services	-	-	3,645,484	3,631,831	3,645,484	3,631,831
Downtown	-	-	1,561,489	1,630,245	1,561,489	1,630,245
Other	2,982,155	3,110,388	-	-	2,982,155	3,110,388
Total expenses	<u>38,180,905</u>	<u>36,786,727</u>	<u>21,926,818</u>	<u>21,076,000</u>	<u>60,107,723</u>	<u>57,862,727</u>
Change in net position before transfers	5,381,040	4,121,388	659,737	1,601,680	6,040,777	5,723,068
Transfers	<u>(4,941,200)</u>	<u>(2,360,245)</u>	<u>4,941,200</u>	<u>2,360,245</u>	<u>-</u>	<u>-</u>
Change in net position	<u>439,840</u>	<u>1,761,143</u>	<u>5,600,937</u>	<u>3,961,925</u>	<u>6,040,777</u>	<u>5,723,068</u>
Net Position:						
Beginning of year - July 1	115,717,647	113,931,617	72,218,090	68,256,165	187,935,737	182,187,782
Restatement	<u>(3,169,427)</u>	<u>24,887</u>	<u>(1,069,154)</u>	<u>-</u>	<u>(4,238,581)</u>	<u>24,887</u>
Beginning of year - July 1, as restated	112,548,220	113,956,504	71,148,936	68,256,165	183,697,156	182,212,669
End of year - June 30	<u>\$112,988,060</u>	<u>\$ 115,717,647</u>	<u>\$ 76,749,873</u>	<u>\$ 72,218,090</u>	<u>\$189,737,933</u>	<u>\$ 187,935,737</u>

Governmental Activities. Net position increased in the City's governmental activities this fiscal year by \$439,840. Key elements of this increase are as follows:

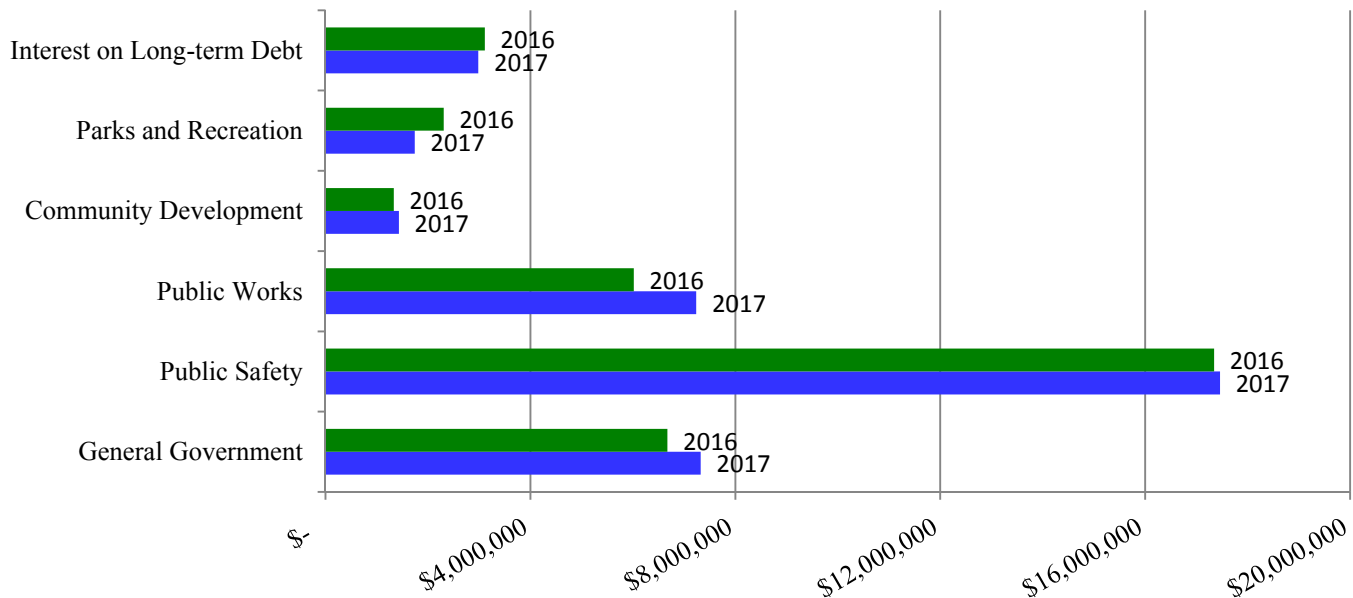
- Property tax revenues increased \$1,181,712 from fiscal year 2016. This is an 5.0% increase from fiscal year 2016. The collection percentage continues to be over 98%.
- Sales tax collected increased \$1,078,634. This is an 13.2% increase from fiscal year 2016. This is the third year the City has seen double digit growth.
- Management has a proactive stance on monitoring spending across City departments to ensure compliance with the budget.

Revenues by Source - Governmental Activities



As shown in the above chart, the City's main source of revenue is from property taxes. The second largest source of revenue is sales taxes. Property taxes total \$24,802,152, while sales taxes total \$9,246,482. The third largest source of revenue is other taxes. The City received grants from the United States Department of Housing and Urban Development, the United States Department of Transportation, the United States Department of Health and Human Services, NC Department of Transportation, NC Housing Finance Agency and the NC Department of Commerce. The City also received property donations totaling \$761,110. This donated property came from developers donating \$256,760 in sidewalks and \$504,350 in streets.

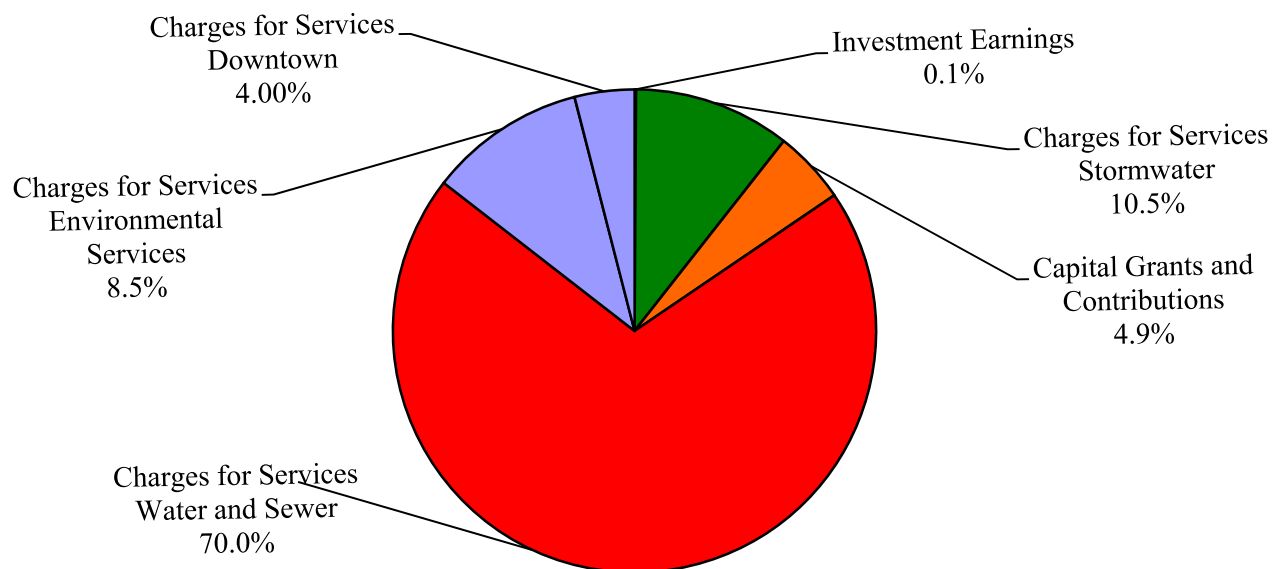
Government Activities Expenses



Business-Type Activities. Business-type activities increased the City of Kannapolis' net position by \$5,600,937. Key elements of this increase are as follows:

- Revenue in the business-type activities continue to cover operating expenses. The City has worked to match revenue with expenses and decrease dependence on transfers from other funds.
- Capital contributions were \$1,115,755 in the current fiscal year. The City received the capital from developers donating water and sewer lines.

Revenues by Source - Business-Type Activities



Financial Analysis of the City's Funds

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

Governmental Funds

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

The General Fund is the chief operating fund for the City of Kannapolis. At the end of the current fiscal year, the City of Kannapolis' fund balance unassigned in the General Fund was a \$9,916,782, while total fund balance reached \$18,086,312. The City currently has an available fund balance of 35% of General Fund expenditures and transfers out, while total fund balance represents 40% of the same amount. The City Council adopted a fund balance policy stipulating an acceptable range between 25% and 33% of General Fund expenditures to available fund balance in case of unforeseen needs or opportunities, as well as meeting the cash flow needs of the City. Since fund balance is over 33%, the City has developed a spending plan utilizing more cash payments for capital projects or other capital assets.

At June 30, 2017, the governmental funds of the City of Kannapolis reported a combined fund balance of \$19,690,924 with a net decrease in fund balance of \$1,959,653. The City had \$5,146,565 of revenues over expenditures. However, the City transferred out \$7,267,272 to capital project funds and the Downtown fund which resulted in a decrease of fund balance.

General Fund Budgetary Highlights

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

Total amendments to the General Fund increased revenues, expenditures and other financing sources (uses) by \$7,211,997, or 18.2%. The largest amendment to the General Fund was to budget \$4,480,00 for transfers to the Village Park Phase III Improvement and Fire Station Improvement Capital Project Funds and Downtown Enterprise Fund for its Capital Projects. The City also appropriated fund balance of \$830,000 during the year to purchase land for parks and tennis courts.

The total variance from the final budget numbers to the actual results for revenues that the City received was \$2,823,162, or 7.0%, more than the budgeted amount. Property tax revenue and sales tax revenue were over budget by \$700,969 and \$1,407,582, respectively. Total revenue increased by 6.9% from fiscal year 2016.

The total variance from the final budget numbers to the actual results for expenditures totaled \$1,911,484, or 4.82%, of the final budget.

Proprietary Funds

The City of Kannapolis' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The non-capital and non-restricted portion of net position of the business-type funds at June 30, 2017 was \$5,054,361, compared to \$9,331,609 at June 30, 2016. See the detailed explanation of this increase under key elements of the change in the net position discussed earlier under "Business-Type Activities."

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017 totaled \$287,656,903 (net of accumulated depreciation). This is an increase from June 30, 2016 of \$4,944,919. These assets include land, buildings, improvements, machinery and equipment, and infrastructure.

Major capital asset transactions during the year included the following:

- \$1,041,334 in land purchases for parks and a fire station
- \$380,000 for a Jet Vac Truck for the Water and Sewer Fund
- 1,830,734 for the Davidson Road Water and Sudbury Rowan Sewer Main
- 1,221,221 for Village Park Phase III Improvements

City of Kannapolis' Capital Assets

Figure 4

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 14,985,101	\$ 13,943,757	\$ 6,401,212	\$ 6,387,412	\$ 21,386,313	\$ 20,331,169
Construction in progress	1,999,657	32,729,489	22,043,672	17,557,547	24,043,329	50,287,036
Rowan County water rights	-	-	2,411,100	2,411,100	2,411,100	2,411,100
Buildings and systems	66,007,898	33,961,111	26,943,128	26,943,128	92,951,026	60,904,239
Improvements other than buildings	7,295,336	7,056,714	-	-	7,295,336	7,056,714
Machinery and equipment	17,940,162	17,019,659	4,941,072	3,976,765	22,881,234	20,996,424
Infrastructure	<u>155,517,780</u>	<u>154,323,239</u>	<u>98,656,456</u>	<u>97,126,022</u>	<u>254,174,236</u>	<u>251,449,261</u>
Total	263,745,934	259,033,969	161,396,640	154,401,974	425,142,574	413,435,943
Less accumulated depreciation and amortization	<u>88,709,615</u>	<u>84,599,331</u>	<u>48,776,056</u>	<u>46,124,628</u>	<u>137,485,671</u>	<u>130,723,959</u>
Capital assets, net	<u>\$ 175,036,319</u>	<u>\$ 174,434,638</u>	<u>\$ 112,620,584</u>	<u>\$ 108,277,346</u>	<u>\$ 287,656,903</u>	<u>\$ 282,711,984</u>

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

Long-Term Debt

At the end of the current fiscal year, the City of Kannapolis had total debt outstanding of \$102,851,522. Of this amount, \$27,333,325 represents bonds secured solely by water and sewer revenues. (i.e. revenue bonds). The City also had \$23,547,720 in outstanding installment obligations and \$51,970,477 in outstanding limited obligation bonds. Through an intergovernmental agreement, Cabarrus County makes contributions for approximately 35% for the limited obligation bonds annually.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Installment obligations	\$ 8,001,829	\$ 9,075,689	\$ 15,545,891	\$ 16,857,525	\$ 23,547,720	\$ 25,933,214
Revenue bonds	-	-	27,333,325	29,365,629	27,333,325	29,365,629
Limited obligation bonds	51,970,477	55,196,700	-	-	51,970,477	55,196,700
Total	<u>\$ 59,972,306</u>	<u>\$ 64,272,389</u>	<u>\$ 42,879,216</u>	<u>\$ 46,223,154</u>	<u>\$ 102,851,522</u>	<u>\$ 110,495,543</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, 2017, the legal debt limit for the City totaled \$238,848,364. The City Council adopted a debt management policy in May of 2012. According to this policy, the net debt (tax supported) should not exceed 2% of the total assessed value of taxable property.

Additional information on the City of Kannapolis' long-term debt can be found in Note 2(B) on pages 73 through 84 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Cabarrus County in June 2017 was 3.9%, which is a decrease from a rate of 5.4% in June 2016. A portion of the City (18%) is located in Rowan County. The unemployment rate in Rowan County decreased to 4.3% in June 2017, compared to 5.8% in June 2016.
- Population in the City has increased from 42,806 in 2008 to 47,839 in 2017.

All of these factors were considered in preparing the City of Kannapolis' budget for fiscal year 2017. The City council did not increase the tax rate as it remains at \$.63/\$100 of valuation for Fiscal Year 2017. Five Capital Projects were approved in the General Fund with a total cost of \$10,439,000 and a budget impact of \$980,920 for the 2018 Fiscal Budget. Thirteen new positions were included in the Fiscal Year budget increasing the citywide employment figure to 349 Full-Time Employees. The General Fund budget increased \$2,389,200, or 5.74% from Fiscal year 2017 budget. The increased revenue is largely from two sources, Sales tax and Property taxes.

The Fiscal Year 2018 Water and Sewer Budget Increased \$1,289,200, or 7.94% from Fiscal Year 2017 budget. A rate increase of \$0.40 per 1000 gallons for water and sewer is found in Fiscal Year 2018 budget. This rate increase is found in the City's 10 Year Financial Plan and is the major reason for this year's fund increase. In Fiscal Year 2017, the Water & Sewer Budget increased 3.59%, or \$562,500 from the previous year's budget.

The Stormwater Fund budget for fiscal year 2018 totaled \$2,994,000 which represents a 27.95% increase, or \$654,000, increase from the 2017 budget. The Stormwater fee was increased \$1.25 for FY 2018, as prescribed in the City's 10 Year Financial Plan. This is the third year the Stormwater Fund has been self-sufficient. The 2018 Fiscal Year budget include \$61,000 in capital purchases made through cash payments. This fund includes cost appropriations related to a federally mandated educational program and annual maintenance of the City's storm drainage system.

The Fiscal Year 2018 budget for the Environmental Fund decreased 6.51%, or \$246,400 over previous year's budget. No rate increase was made in FY 2018, but a rate increase is scheduled for FY 2019. FY 2018 is the first year for the City to complete yard waste with city staff, as opposed to the service being completed through a contract with a private company. This change in service delivery is the primary cause for the reduction in size of the Environmental Fund.

Fiscal Year 2018 is the third year for the Downtown Fund. The fund decreased 5.16%, or \$113,300 over previous year's budget. Increases in residential rent and special event fees revenues are projected for Fiscal Year 2018. No capital projects or capital purchases are scheduled for FY 2018, with very large capital projects commencing in FY 2019.

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.

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 14,080,266	\$ 7,988,033	\$ 22,068,299
Taxes receivable	478,627	-	478,627
Accounts receivable, net	184,890	3,964,417	4,149,307
Due from other governments	2,553,268	165,601	2,718,869
Cash and cash equivalents, restricted	5,822,998	2,323,950	8,146,948
Prepaid items	264,251	-	264,251
Total current assets	<u>23,384,300</u>	<u>14,442,001</u>	<u>37,826,301</u>
Non-current assets:			
Intangible asset, net of amortization	-	1,687,770	1,687,770
Non-depreciable assets	16,984,758	28,444,884	45,429,642
Other capital assets, net of depreciation	158,051,561	82,487,930	240,539,491
Total non-current assets	<u>175,036,319</u>	<u>112,620,584</u>	<u>287,656,903</u>
Total assets	<u>198,420,619</u>	<u>127,062,585</u>	<u>325,483,204</u>
Deferred Outflows of Resources:			
Contributions to pension plan in current year	1,137,347	250,077	1,387,424
Pension deferrals	3,176,209	697,217	3,873,426
Total deferred outflows of resources	<u>4,313,556</u>	<u>947,294</u>	<u>5,260,850</u>
Liabilities:			
Current liabilities:			
Accounts payable	972,401	1,096,002	2,068,403
Accrued expenses	1,946,881	292,391	2,239,272
Accrued interest	858,488	334,380	1,192,868
Current compensated absences	774,002	112,252	886,254
Current maturities of long-term debt	4,495,320	3,798,720	8,294,040
Liabilities to be paid from restricted assets	-	543,141	543,141
Total current liabilities	<u>9,047,092</u>	<u>6,176,886</u>	<u>15,223,978</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Non-current liabilities:			
Net pension liability - LGERS	4,961,638	1,089,140	6,050,778
Total pension liability - LEOSA	5,090,728	1,131,273	6,222,001
Non-current compensated absences	258,001	37,417	295,418
Other post-employment benefits obligation	14,237,389	3,599,696	17,837,085
Long-term debt	55,476,986	39,080,496	94,557,482
Total non-current liabilities	80,024,742	44,938,022	124,962,764
 Total liabilities	 89,071,834	 51,114,908	 140,186,742
 Deferred Inflows of Resources:			
Prepaid taxes	14,636	-	14,636
Pension deferrals	659,645	145,098	804,743
Total deferred inflows of resources	674,281	145,098	819,379
 Net Position:			
Net investment in capital assets	115,399,035	71,695,512	187,094,547
Restricted - stabilization for State statute	2,560,028	-	2,560,028
Restricted - streets	181,903	-	181,903
Restricted - community development	5,829,637	-	5,829,637
Restricted - public safety	19,767	-	19,767
Unrestricted	(11,002,310)	5,054,361	(5,947,949)
 Total net position	 \$ 112,988,060	 \$ 76,749,873	 \$ 189,737,933

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, 2017

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 7,325,045	\$ 117,746	\$ 1,376,284	\$ 1,521,960
Public safety	17,463,089	142,291	92,427	-
Public works	7,235,720	83,476	-	1,324,091
Community development	1,432,037	110,036	67,785	354,601
Parks and recreation	1,742,859	280,362	-	120,873
Interest on long-term debt	2,982,155	-	-	-
Total governmental activities	<u>38,180,905</u>	<u>733,911</u>	<u>1,536,496</u>	<u>3,321,525</u>
Business-Type Activities:				
Water and sewer	14,819,100	15,803,570	-	1,115,755
Stormwater	1,900,745	2,372,661	-	-
Environmental services	3,645,484	2,365,794	-	-
Downtown	1,561,489	912,582	-	-
Total business-type activities	<u>21,926,818</u>	<u>21,454,607</u>	<u>-</u>	<u>1,115,755</u>
Total primary government	<u>\$ 60,107,723</u>	<u>\$ 22,188,518</u>	<u>\$ 1,536,496</u>	<u>\$ 4,437,280</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, 2017

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Functions/Programs			
Primary Government:			
Governmental Activities:			
General government	\$ (4,309,055)	\$ -	\$ (4,309,055)
Public safety	(17,228,371)	-	(17,228,371)
Public works	(5,828,153)	-	(5,828,153)
Community development	(899,615)	-	(899,615)
Parks and recreation	(1,341,624)	-	(1,341,624)
Interest on long-term debt	(2,982,155)	-	(2,982,155)
Total governmental activities	<u>(32,588,973)</u>	<u>-</u>	<u>(32,588,973)</u>
Business-Type Activities:			
Water and sewer	-	2,100,225	2,100,225
Stormwater	-	471,916	471,916
Environmental services	-	(1,279,690)	(1,279,690)
Downtown	-	(648,907)	(648,907)
Total business-type activities	<u>-</u>	<u>643,544</u>	<u>643,544</u>
Total primary government	<u>(32,588,973)</u>	<u>643,544</u>	<u>(31,945,429)</u>
General Revenues:			
Taxes:			
Ad valorem taxes	24,802,152	-	24,802,152
Sales tax	9,246,482	-	9,246,482
Other taxes and licenses	684,969	-	684,969
Franchise tax	2,727,263	-	2,727,263
Unrestricted intergovernmental revenues	210,408	-	210,408
Investment earnings	298,739	16,193	314,932
Total general revenues, not including transfers	37,970,013	16,193	37,986,206
Transfers	(4,941,200)	4,941,200	-
Total general revenues and transfers	<u>33,028,813</u>	<u>4,957,393</u>	<u>37,986,206</u>
Change in net position	<u>439,840</u>	<u>5,600,937</u>	<u>6,040,777</u>
Net Position:			
Beginning of year - July 1	115,717,647	72,218,090	187,935,737
Restatement	(3,169,427)	(1,069,154)	(4,238,581)
Beginning of year - July 1, as restated	<u>112,548,220</u>	<u>71,148,936</u>	<u>183,697,156</u>
End of year - June 30	<u>\$ 112,988,060</u>	<u>\$ 76,749,873</u>	<u>\$ 189,737,933</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

	Major Funds		Nonmajor Funds	
	General Fund	City Office/ Public Safety Building	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 12,841,283	\$ -	\$ 1,238,983	\$ 14,080,266
Taxes receivable	478,627	-	-	478,627
Accounts receivable	10,877	-	-	10,877
Long-term receivable	-	-	174,013	174,013
Due from other governments	2,317,416	-	235,852	2,553,268
Due from other funds	102,701	-	-	102,701
Cash and cash equivalents - restricted	5,609,200	-	213,798	5,822,998
Prepaid items	264,251	-	-	264,251
Total assets	<u>\$ 21,624,355</u>	<u>\$ -</u>	<u>\$ 1,862,646</u>	<u>\$ 23,487,001</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ 817,068	\$ -	\$ 155,333	\$ 972,401
Accrued liabilities	1,946,881	-	-	1,946,881
Due to other funds	-	-	102,701	102,701
Total liabilities	<u>2,763,949</u>	<u>-</u>	<u>258,034</u>	<u>3,021,983</u>
Deferred Inflows of Resources:				
Prepaid taxes	14,636	-	-	14,636
Property taxes receivable	478,627	-	-	478,627
Other unavailable revenue	280,831	-	-	280,831
Total deferred inflows of resources	<u>774,094</u>	<u>-</u>	<u>-</u>	<u>774,094</u>
Fund Balances:				
Non-spendable:				
Prepaid items	264,251	-	-	264,251
Restricted:				
Stabilization for State statute	2,150,163	-	409,865	2,560,028
Restricted for community development	5,407,530	-	757,129	6,164,659
Restricted for streets	181,903	-	-	181,903
Restricted for public safety	19,767	-	-	19,767
Committed	145,916	-	619,937	765,853
Unassigned	9,916,782	-	(182,319)	9,734,463
Total fund balances	<u>18,086,312</u>	<u>-</u>	<u>1,604,612</u>	<u>19,690,924</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 21,624,355</u>	<u>\$ -</u>	<u>\$ 1,862,646</u>	<u>\$ 23,487,001</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2017

	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total fund balance - governmental funds	\$ 19,690,924
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	175,036,319
Net pension liability	(4,961,638)
Total pension liability	(5,090,728)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	1,137,347
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.	759,458
Pension related deferrals	2,516,564
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	
Debt payable	(59,972,306)
Other post-employment benefits	(14,237,389)
Accrued interest	(858,488)
Compensated absences	<u>(1,032,003)</u>
Net position of governmental activities	<u>\$ 112,988,060</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, 2017

	Major Funds		Nonmajor Funds	
	General Fund	City Office/ Public Safety Building	Other Governmental Funds	Total Governmental Funds
Revenues:				
Ad valorem taxes	\$ 24,859,269	\$ -	\$ -	\$ 24,859,269
Other taxes and licenses	9,649,937	-	198,343	9,848,280
Unrestricted intergovernmental	3,020,842	-	-	3,020,842
Restricted intergovernmental	2,997,583	-	510,709	3,508,292
Sales and services	744,442	-	-	744,442
Investment earnings	298,604	-	135	298,739
Miscellaneous	1,349,729	-	-	1,349,729
Total revenues	42,920,406	-	709,187	43,629,593
Expenditures:				
Current:				
General government	7,132,361	-	-	7,132,361
Public safety	15,706,593	-	-	15,706,593
Public works	4,281,601	-	-	4,281,601
Community development	740,651	-	691,386	1,432,037
Capital outlay	-	396,118	1,918,701	2,314,819
Parks and recreation	2,572,672	-	-	2,572,672
Debt service:				
Principal retirement	4,310,860	-	203,000	4,513,860
Interest and fees	3,029,103	-	-	3,029,103
Total expenditures	37,773,841	396,118	2,813,087	40,983,046
Revenues over (under) expenditures	5,146,565	(396,118)	(2,103,900)	2,646,547
Other Financing Sources (Uses):				
Transfers (out)	(7,267,272)	-	-	(7,267,272)
Transfers in	118,807	(118,807)	2,326,072	2,326,072
Issuance of long-term debt	335,000	-	-	335,000
Total other financing sources (uses)	(6,813,465)	(118,807)	2,326,072	(4,606,200)
Net change in fund balances	(1,666,900)	(514,925)	222,172	(1,959,653)
Fund Balances:				
Beginning of year - July 1	19,753,212	514,925	1,382,440	21,650,577
End of year - June 30	\$ 18,086,312	\$ -	\$ 1,604,612	\$ 19,690,924

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, 2017**

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)	\$ (1,959,653)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	5,062,399
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(4,459,854)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	984,337
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities.	153,010
The sale of capital assets is reported as a revenue in the governmental funds statement without subtracting the net book value of the capital assets sold.	(864)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(67,648)
Expenses related to accrued interest, compensated absences, and other post-employment benefits that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(1,979,372)
Pension expenses reported in the Statement of Activities do not require the use of current financial resources, and, therefore are not reported as expenditures in the governmental funds.	(1,592,598)
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.	(335,000)
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.	<u>4,513,860</u>
Total change in net position of governmental activities (Exhibit B)	<u>\$ 439,840</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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 24,158,300	\$ 24,158,300	\$ 24,859,269	\$ 700,969
Other taxes and licenses	8,223,900	8,223,900	9,649,937	1,426,037
Unrestricted intergovernmental	2,939,000	2,939,000	3,020,842	81,842
Restricted intergovernmental	2,791,400	2,885,740	2,997,583	111,843
Sales and services	811,000	811,000	744,442	(66,558)
Investment earnings	150,000	150,000	298,604	148,604
Miscellaneous	746,000	929,304	1,349,729	420,425
Total revenues	<u>39,819,600</u>	<u>40,097,244</u>	<u>42,920,406</u>	<u>2,823,162</u>
Expenditures:				
Current:				
General government	5,921,097	7,787,557	7,132,361	655,196
Public safety	15,877,455	15,900,581	15,706,593	193,988
Public works	4,715,317	4,712,770	4,281,601	431,169
Community development	756,321	795,841	740,651	55,190
Parks and recreation	1,947,810	2,974,953	2,572,672	402,281
Debt service:				
Principal retirement	4,481,400	4,316,400	4,310,860	5,540
Interest and fees	3,533,700	3,197,223	3,029,103	168,120
Total expenditures	<u>37,233,100</u>	<u>39,685,325</u>	<u>37,773,841</u>	<u>1,911,484</u>
Revenues over (under) expenditures	<u>2,586,500</u>	<u>411,919</u>	<u>5,146,565</u>	<u>4,734,646</u>
Other Financing Sources (Uses):				
Transfers in	-	-	118,807	118,807
Transfers (out)	(2,586,500)	(7,267,272)	(7,267,272)	-
Installment financing issued	-	635,000	335,000	(300,000)
Appropriated fund balance	-	6,220,353	-	(6,220,353)
Total other financing sources (uses)	<u>(2,586,500)</u>	<u>(411,919)</u>	<u>(6,813,465)</u>	<u>(6,401,546)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(1,666,900)</u>	<u>\$ (1,666,900)</u>
Fund Balance:				
Beginning of year - July 1			<u>19,753,212</u>	
End of year - June 30			<u>\$ 18,086,312</u>	

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

CITY OF KANNAPOLIS, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Business-Type Activities				
	Major Enterprise Funds				Total
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	Downtown Kannapolis Fund	Business-Type Activities
Assets:					
Current assets:					
Cash and investments	\$ 3,928,636	\$ 1,225,653	\$ 641,820	\$ 2,191,924	\$ 7,988,033
Accounts receivable, net	3,014,869	454,845	494,703	-	3,964,417
Due from other governments	136,329	16,372	4,910	7,990	165,601
Cash and investments, restricted	1,162,537	-	-	1,161,413	2,323,950
Total current assets	8,242,371	1,696,870	1,141,433	3,361,327	14,442,001
Non-current assets:					
Intangible asset, net of amortization	1,687,770	-	-	-	1,687,770
Capital assets:					
Non-depreciable assets	21,303,707	271,353	-	6,869,824	28,444,884
Other capital assets net of depreciation	73,237,476	5,054,529	282,260	3,913,665	82,487,930
Total capital assets	94,541,183	5,325,882	282,260	10,783,489	110,932,814
Total non-current assets	96,228,953	5,325,882	282,260	10,783,489	112,620,584
Total assets	104,471,324	7,022,752	1,423,693	14,144,816	127,062,585
Deferred Outflows of Resources:					
Contributions to pension plan	194,693	55,384	-	-	250,077
Pension deferrals	542,280	154,937	-	-	697,217
Total deferred outflows of resources	736,973	210,321	-	-	947,294
Liabilities:					
Current liabilities:					
Accounts payable	489,301	72,319	312,946	221,436	1,096,002
Accrued expenses	71,252	17,102	-	204,037	292,391
Accrued interest	325,332	9,048	-	-	334,380
Current portion of compensated absences	89,196	23,056	-	-	112,252
Current maturities of long-term debt	2,467,712	597,008	-	734,000	3,798,720
Liabilities to be paid from restricted assets	543,141	-	-	-	543,141
Total current liabilities	3,985,934	718,533	312,946	1,159,473	6,176,886
Non-current liabilities:					
Net pension liability - LGERS	847,109	242,031	-	-	1,089,140
Total pension liability - LEOSSA	886,164	245,109	-	-	1,131,273
Compensated absences	29,732	7,685	-	-	37,417
Other post-employment benefits obligation	2,795,399	804,297	-	-	3,599,696
Long-term debt	27,195,390	2,353,106	-	9,532,000	39,080,496
Total non-current liabilities	31,753,794	3,652,228	-	9,532,000	44,938,022
Total liabilities	35,739,728	4,370,761	312,946	10,691,473	51,114,908
Deferred Inflows of Resources:					
Pension deferrals	112,988	32,110	-	-	145,098
Net Position:					
Net investment in capital assets	67,358,582	2,375,768	282,260	1,678,902	71,695,512
Unrestricted	1,996,999	454,434	828,487	1,774,441	5,054,361
Total net position	\$ 69,355,581	\$ 2,830,202	\$ 1,110,747	\$ 3,453,343	\$ 76,749,873

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, 2017

	Business-Type Activities				
	Major				
	Enterprise Funds				Total
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	Downtown Kannapolis Fund	Business-Type Activities
Operating Revenues:					
Charges for services	\$ 14,431,040	\$ 2,372,661	\$ 2,294,899	\$ 912,582	\$ 20,011,182
Water and sewer taps	918,338	-	-	-	918,338
Other operating revenues	454,192	-	70,895	-	525,087
Total operating revenues	15,803,570	2,372,661	2,365,794	912,582	21,454,607
Operating Expenses:					
Administration	747,049	-	-	-	747,049
Distribution	2,926,691	-	-	-	2,926,691
Filter plant	3,035,670	-	-	-	3,035,670
General services	1,539,416	-	-	553,192	2,092,608
Contracted services	-	-	-	432,117	432,117
Sewage treatment	2,932,453	-	-	-	2,932,453
Stormwater	-	1,617,534	-	-	1,617,534
Environmental services	-	-	3,640,700	-	3,640,700
Depreciation and amortization	2,474,172	215,030	4,784	83,574	2,777,560
Total operating expenses	13,655,451	1,832,564	3,645,484	1,068,883	20,202,382
Operating income (loss)	2,148,119	540,097	(1,279,690)	(156,301)	1,252,225
Non-Operating Revenues (Expenses):					
Interest earned on investments	13,260	-	-	2,933	16,193
Interest and fees on long-term debt	(1,163,649)	(68,181)	-	(492,606)	(1,724,436)
Total non-operating revenues (expenses)	(1,150,389)	(68,181)	-	(489,673)	(1,708,243)
Income (loss) before capital contributions and transfers	997,730	471,916	(1,279,690)	(645,974)	(456,018)
Capital Contributions	1,115,755	-	-	-	1,115,755
Transfers:					
Transfers (out)	(1,364,700)	-	-	-	(1,364,700)
Transfers in	-	500,000	1,864,700	3,941,200	6,305,900
Total transfers	(1,364,700)	500,000	1,864,700	3,941,200	4,941,200
Change in net position	748,785	971,916	585,010	3,295,226	5,600,937
Net Position:					
Beginning of year - July 1	69,444,300	2,089,936	525,737	158,117	72,218,090
Restatement	(837,504)	(231,650)	-	-	(1,069,154)
Beginning of year - July 1, as restated	68,606,796	1,858,286	525,737	158,117	71,148,936
End of year - June 30	\$ 69,355,581	\$ 2,830,202	\$ 1,110,747	\$ 3,453,343	\$ 76,749,873

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, 2017

	Business-Type Activities				
	Major Enterprise Funds				Total Business-Type Activities
	Water and Sewer Fund	Stormwater Fund	Environmental Services Fund	Downtown Kannapolis Fund	
Cash Flows from Operating Activities:					
Cash received from customers	\$ 16,572,413	\$ 2,242,593	\$ 2,175,897	\$ 911,298	\$ 21,902,201
Cash paid for goods and services	(8,214,343)	(655,442)	(3,620,565)	(826,648)	(13,316,998)
Cash paid to employees	(2,797,212)	(759,105)	-	-	(3,556,317)
Net cash provided (used) by operating activities	5,560,858	828,046	(1,444,668)	84,650	5,028,886
Cash Flows from Non-Capital Financing Activities:					
Transfers (to) from other funds	(1,364,700)	500,000	1,864,700	3,941,200	4,941,200
Net cash provided (used) by non-capital financing activities	(1,364,700)	500,000	1,864,700	3,941,200	4,941,200
Cash Flows from Capital and Related Financing Activities:					
Proceeds from issuance of long-term debt	380,000	-	-	-	380,000
Acquisition of capital assets and capital projects	(4,116,512)	(388,733)	(287,044)	(1,212,754)	(6,005,043)
Principal paid on long-term debt	(2,385,733)	(604,205)	-	(734,000)	(3,723,938)
Interest and fees paid on long-term debt	(1,184,920)	(69,904)	-	(507,313)	(1,762,137)
Net cash provided (used) by capital and related financing activities	(7,307,165)	(1,062,842)	(287,044)	(2,454,067)	(11,111,118)
Cash Flows from Investing Activities:					
Interest on investments	13,260	-	-	2,933	16,193
Net increase (decrease) in cash and cash equivalents	(3,097,747)	265,204	132,988	1,574,716	(1,124,839)
Cash and Cash Equivalents:					
Beginning of year - July 1	8,188,920	960,449	508,832	1,778,621	11,436,822
End of year - June 30	<u>\$ 5,091,173</u>	<u>\$ 1,225,653</u>	<u>\$ 641,820</u>	<u>\$ 3,353,337</u>	<u>\$ 10,311,983</u>
Reconciliation of Operating Income (Loss) to Provided (Used) By Operating Activities:					
Operating income (loss)	\$ 2,148,119	\$ 540,097	\$ (1,279,690)	\$ (156,301)	\$ 1,252,225
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	2,474,172	215,030	4,784	83,574	2,777,560
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	745,673	(130,068)	(189,897)	(1,284)	424,424
(Increase) decrease in prepaids	1,978	-	-	-	1,978
Increase (decrease) in total pension liability	48,660	13,459	-	-	62,119
Increase (decrease) in net pension liability	656,624	187,607	-	-	844,231
(Increase) decrease in deferred inflows of resources for pensions	(37,633)	(10,925)	-	-	(48,558)
(Increase) decrease in deferred outflows of resources for pensions	(589,137)	(168,082)	-	-	(757,219)
Increase (decrease) in accounts payable and accrued liabilities	(271,341)	60,737	20,135	158,661	(31,808)
Increase (decrease) in other post-employment benefits	360,573	120,191	-	-	480,764
Increase (decrease) in customer deposits	23,170	-	-	-	23,170
Net cash provided (used) by operating activities	<u>\$ 5,560,858</u>	<u>\$ 828,046</u>	<u>\$ (1,444,668)</u>	<u>\$ 84,650</u>	<u>\$ 5,028,886</u>
Summary of Non-Cash Activities:					
Capital asset contributions	<u>\$ 1,115,755</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,115,755</u>

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

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CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The City reports the following major governmental funds:

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

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

The City reports the following nonmajor governmental funds:

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

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

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

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

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

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

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The City reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the City's water and sewer operations. The City maintains four separate water and sewer capital project funds for accounting purposes: Revenue Bonds 2014 Fund, Mooresville Road Water Main Fund, Davidson Road Water and Sudbury Road Sewer Main, and Downtown Water and Sewer Infrastructure. For financial reporting purposes, these funds have been consolidated into the Water and Sewer Fund.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

recover the cost of connecting new customers to the water and sewer system. Operating expenses for the Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as beer and wine tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Sales taxes are considered a shared revenue for the City of Kannapolis because the tax is levied by the Counties and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

D. Budgetary Data

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

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

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

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

Deposits and Investments

All deposits of the City are made in board-designated official depositories and are secured as required by State law (G.S. 159-31). The City may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. State law (G.S. 159-30(c)) authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT).

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Cash and Cash Equivalents

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

Restricted Assets

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

General Fund:

Required debt service reserve	\$ 5,072,508
Unspent debt proceeds	335,022
Federal asset forfeiture funds	19,767
Powell Bill	<u>181,903</u>
Total	<u>5,609,200</u>

Other Governmental Funds:

HUD Section 108 - required debt service reserve	<u>213,798</u>
Total	<u>213,798</u>

Enterprise Funds:

Unspent debt proceeds	1,954,144
Customer deposits	<u>369,806</u>
Total	<u>2,323,950</u>

Total restricted cash	<u>\$ 8,146,948</u>
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CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2016. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the General Fund, ad valorem tax revenues are reported net of such discounts.

Allowance for Doubtful Accounts

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

Interfund Receivables/Payables

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

Prepaid Items

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$250,000 for general infrastructure and \$5,000 for other capital asset classifications. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are reported at acquisition value.

All other purchased or constructed capital assets are reported at cost or estimated historical cost. The City has elected not to capitalize monuments and works of art that are held for public exhibition. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has two items that meet this criterion – contributions made to the pension plan in the 2017 fiscal year and pension deferrals. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has several items that meet the criterion for this category – prepaid taxes, other unavailable revenues, property taxes receivable, and deferrals of pension expense.

Long-Term Obligations

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

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

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

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

Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Restricted Fund Balance

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

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

Restricted for Community Development – portion of fund balance restricted by revenue source for community development activities. \$335,022 is restricted in the General Fund for unspent debt proceeds and \$5,072,508 a required debt service reserve related to NCRC project. \$213,798 in the CDBG Fund is restricted for HUD Section 108 Loan payment. \$543,331 in the Transit Tax Fund is restricted by the revenue source for the development of a transit system for the City.

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

Restricted for Public Safety – portion of fund balance restricted by revenue source for public safety related activities such as police and fire. This amount represents the balance of Federal Asset Forfeiture funds.

Restricted fund balance at June 30, 2017 is as follows:

Purpose	General Fund	Other Governmental Funds
Restricted, All Other:		
Streets	\$ 181,903	\$ -
Public safety	19,767	-
Community development	5,407,530	757,129
Total	<u>\$ 5,609,200</u>	<u>\$ 757,129</u>

Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C by the amount of unspent debt proceeds of \$335,022 as of June 30, 2017.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Committed Fund Balance

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

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

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

Committed fund balance at June 30, 2017 is as follows:

<u>Purpose</u>	Other	
	General Fund	Governmental Funds
Capital projects	\$ -	\$ 619,937
Police separation	145,916	-
Total	<u>\$ 145,916</u>	<u>\$ 619,937</u>

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

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

Fund Balance Available for Appropriation

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

Total fund balance - General Fund	\$ 18,086,312
Less:	
Prepaid items	(264,251)
Stabilization by State statute	<u>(2,150,163)</u>
Fund balance available for appropriation	<u>\$ 15,671,898</u>

Defined Benefit Cost Sharing Plan

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

Revenues, Expenditures, and Expenses

Other Resources

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Management Estimates

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

2. Detail Notes on All Funds

A. Assets

Deposits

All of the deposits of the City are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's agents in the City's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City's agent in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or with the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City under the Pooling Method, the potential exists for undercollateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2017, the City's deposits had a carrying amount of \$3,067,887 and a bank balance of \$2,560,100. 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, 2017, the City's petty cash fund totaled \$6,070.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Investments

At June 30, 2017, the City had the following investments and maturities:

<u>Investments by Type</u>	<u>Valuation</u>		<u>Less Than</u>			
	<u>Measurement Method</u>	<u>Fair Value</u>	<u>One Year</u>	<u>6-12 months</u>	<u>1 - 3 years</u>	<u>5+ Years</u>
NC Capital Management Trust -						
Government Portfolio	Amortized Cost	\$ 3,586,331	\$ 3,586,331	\$ -	\$ -	\$ -
NC Capital Management Trust -						
Term Portfolio	Fair Value - Level 1	1,569,948	1,569,948	-	-	-
Government Agencies	Fair Value - Level 2	7,551,854	-		7,551,854	-
Commercial Paper	Fair Value - Level 1	10,852,315	10,852,315			-
Repurchase Agreements	Cost	3,580,842	3,580,842	-	-	-
Total		<u>\$ 27,141,290</u>	<u>\$ 19,589,436</u>	<u>\$ -</u>	<u>\$ 7,551,854</u>	<u>\$ -</u>

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

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

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

Credit Risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). To best mitigate against credit risk, the City requires a diversification of investments. The City's investments in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard and Poor's as of June 30, 2017. The City's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments, as permitted under North Carolina General Statutes 159-30 as amended. The City's investments in U.S. government obligations are rated A1P1 by Moody's Investors Service.

Concentration of Credit Risk. The City places no limit on the amount that the City may invest in any one issuer. More than 5 percent of the City's investments are in commercial paper. This investment is 40% of the City's total investments.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Receivables

Receivables at the government-wide level at June 30, 2017 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 10,877	\$ 979,492	\$ 2,317,416	\$ 3,307,785
Governmental	<u>174,013</u>	<u>-</u>	<u>235,852</u>	<u>409,865</u>
Total receivables	184,890	979,492	2,553,268	3,717,650
Allowance for doubtful accounts	<u>-</u>	<u>(500,865)</u>	<u>-</u>	<u>(500,865)</u>
Total	<u><u>\$ 184,890</u></u>	<u><u>\$ 478,627</u></u>	<u><u>\$ 2,553,268</u></u>	<u><u>\$ 3,216,785</u></u>
Business-Type Activities:				
Water and sewer	\$ 3,995,862	\$ -	\$ 136,329	\$ 4,132,191
Stormwater	513,028	-	16,372	529,400
Environmental services	509,249	-	4,910	514,159
Downtown	-	-	7,990	7,990
Allowance for doubtful accounts	<u>(1,053,722)</u>	<u>-</u>	<u>-</u>	<u>(1,053,722)</u>
Total	<u><u>\$ 3,964,417</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 165,601</u></u>	<u><u>\$ 4,130,018</u></u>

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

Local option sales tax	\$ 1,547,059
Property taxes	362,748
Other	<u>809,062</u>
Total	<u><u>\$ 2,718,869</u></u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Capital Assets

The following is a summary of changes in the governmental capital assets for the year ended June 30, 2017:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance June 30, 2017</u>
Non-Depreciable Capital Assets:				
Land	\$ 13,943,757	\$ 1,041,344	\$ -	\$ 14,985,101
Construction in progress	<u>32,729,489</u>	<u>1,750,386</u>	<u>(32,480,218)</u>	<u>1,999,657</u>
Total non-depreciable capital assets	<u>46,673,246</u>	<u>2,791,730</u>	<u>(32,480,218)</u>	<u>16,984,758</u>
Depreciable Capital Assets:				
Buildings and improvements	33,961,111	-	32,046,787	66,007,898
Other improvements	7,056,714	238,622	-	7,295,336
Machinery and equipment	17,019,659	1,270,937	(350,434)	17,940,162
Infrastructure	<u>154,323,239</u>	<u>761,110</u>	<u>433,431</u>	<u>155,517,780</u>
Total depreciable capital assets	<u>212,360,723</u>	<u>2,270,669</u>	<u>32,129,784</u>	<u>246,761,176</u>
Less Accumulated Depreciation:				
Building and improvements	4,653,581	732,799	-	5,386,380
Other improvements	1,318,951	160,950	-	1,479,901
Machinery and equipment	13,064,651	1,107,432	-	14,172,083
Infrastructure	<u>65,562,148</u>	<u>2,458,673</u>	<u>(349,570)</u>	<u>67,671,251</u>
Total accumulated depreciation	<u>84,599,331</u>	<u>4,459,854</u>	<u>(349,570)</u>	<u>88,709,615</u>
 Total depreciable capital assets, net	 <u>127,761,392</u>	 <u>\$ (2,189,185)</u>	 <u>\$ (864)</u>	 <u>158,051,561</u>
 Total capital assets, net	 <u>\$ 174,434,638</u>			 <u>\$ 175,036,319</u>

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

General government	\$ 483,879
Public safety	846,406
Public works	2,541,684
Parks and recreation	<u>587,885</u>
Total depreciation expense	<u>\$ 4,459,854</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The following is a summary of changes in the business-type capital assets for the year ended June 30, 2017.

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
Water and Sewer Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 730,342	\$ -	\$ -	\$ 730,342
Construction in progress	<u>17,557,547</u>	<u>3,264,949</u>	<u>(249,131)</u>	<u>20,573,365</u>
Total non-depreciable capital assets	<u>18,287,889</u>	<u>3,264,949</u>	<u>(249,131)</u>	<u>21,303,707</u>
Depreciable Capital Assets:				
Buildings	22,919,644	-	-	22,919,644
Distribution systems	89,660,095	1,281,303	249,131	91,190,529
Machinery and equipment	<u>2,909,021</u>	<u>686,015</u>	<u>(126,132)</u>	<u>3,468,904</u>
Total depreciable capital assets	<u>115,488,760</u>	<u>1,967,318</u>	<u>122,999</u>	<u>117,579,077</u>
Less Accumulated Depreciation:				
Buildings	8,780,397	369,804	-	9,150,201
Distribution systems	31,294,313	1,776,713	-	33,071,026
Machinery and equipment	<u>1,967,073</u>	<u>279,433</u>	<u>(126,132)</u>	<u>2,120,374</u>
Total accumulated depreciation	<u>42,041,783</u>	<u>\$ 2,425,950</u>	<u>\$ (126,132)</u>	<u>44,341,601</u>
Total depreciable capital assets, net	<u>73,446,977</u>			<u>73,237,476</u>
Total Water and Sewer Fund capital assets, net	<u>91,734,866</u>			<u>94,541,183</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
Stormwater Fund:				
Non-Depreciable Capital Assets:				
Construction in progress	\$ -	\$ 271,353	\$ -	\$ 271,353
Total non-depreciable capital assets	<u>-</u>	<u>271,353</u>	<u>-</u>	<u>271,353</u>
Depreciable Capital Assets:				
Machinery and equipment	1,046,013	117,380	-	1,163,393
Infrastructure	<u>7,465,927</u>	<u>-</u>	<u>-</u>	<u>7,465,927</u>
Total depreciable capital assets	<u>8,511,940</u>	<u>117,380</u>	<u>-</u>	<u>8,629,320</u>
Less Accumulated Depreciation:				
Machinery and equipment	767,637	98,024	-	865,661
Infrastructure	<u>2,592,124</u>	<u>117,006</u>	<u>-</u>	<u>2,709,130</u>
Total accumulated depreciation	<u>3,359,761</u>	<u>\$ 215,030</u>	<u>\$ -</u>	<u>3,574,791</u>
Total depreciable capital assets, net	<u>5,152,179</u>			<u>5,054,529</u>
Total Stormwater Fund capital assets, net	<u>5,152,179</u>			<u>5,325,882</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
Downtown Kannapolis Fund:				
Non-Depreciable Capital Assets:				
Land	5,657,070	\$ 13,800	\$ -	5,670,870
Construction in progress	<u>-</u>	<u>1,198,954</u>	<u>-</u>	<u>1,198,954</u>
Total non-depreciable capital assets	<u>5,657,070</u>	<u>1,212,754</u>	<u>-</u>	<u>6,869,824</u>
Depreciable Capital Assets:				
Buildings	4,023,484	-	-	4,023,484
Machinery and equipment	<u>21,731</u>	<u>-</u>	<u>-</u>	<u>21,731</u>
Total depreciable capital assets	<u>4,045,215</u>	<u>-</u>	<u>-</u>	<u>4,045,215</u>
Less Accumulated Depreciation:				
Buildings	46,941	80,470	-	127,411
Machinery and equipment	<u>1,035</u>	<u>3,104</u>	<u>-</u>	<u>4,139</u>
Total accumulated depreciation	<u>47,976</u>	<u>\$ 83,574</u>	<u>\$ -</u>	<u>131,550</u>
 Total depreciable capital assets, net	 <u>3,997,239</u>			 <u>3,913,665</u>
 Total Downtown Kannapolis Fund capital assets, net	 <u>9,654,309</u>			 <u>10,783,489</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
Environmental Services Fund:				
Depreciable Capital Assets:				
Machinery and equipment	-	\$ 287,044	\$ -	287,044
Total depreciable capital assets	-	287,044	-	287,044
Less Accumulated Depreciation:				
Machinery and equipment	-	4,784	-	4,784
Total accumulated depreciation	-	<u>\$ 4,784</u>	<u>\$ -</u>	4,784
Total depreciable capital assets, net	-			<u>282,260</u>
Total Environmental Services Fund capital assets, net	-			<u>282,260</u>
Total business-type capital assets, net	<u>\$ 106,541,354</u>			<u>\$ 110,932,814</u>

Proprietary Intangible Assets

The intangible assets of the Water and Sewer Fund at June 30, 2017 were as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
Intangible Assets:				
Rowan County water rights	\$ 2,411,100	\$ -	\$ -	\$ 2,411,100
Less accumulated amortization	(675,108)	(48,222)	-	(723,330)
Intangible assets, net	<u>\$ 1,735,992</u>	<u>\$ (48,222)</u>	<u>\$ -</u>	<u>\$ 1,687,770</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2017 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>IBNR</u>	<u>Total</u>
Governmental Activities:				
General	\$ 817,068	\$ 976,126	\$ 970,755	\$ 2,763,949
Other governmental	<u>155,333</u>	<u>-</u>	<u>-</u>	<u>155,333</u>
Total payables	<u>\$ 972,401</u>	<u>\$ 976,126</u>	<u>\$ 970,755</u>	<u>\$ 2,919,282</u>
Business-Type Activities:				
Water and sewer	\$ 489,301	\$ 71,252	\$ -	\$ 560,553
Stormwater	72,319	17,102	-	89,421
Environmental services	312,946	-	-	312,946
Downtown	<u>221,436</u>	<u>204,037</u>	<u>-</u>	<u>425,473</u>
Total payables	<u>\$ 1,096,002</u>	<u>\$ 292,391</u>	<u>\$ -</u>	<u>\$ 1,388,393</u>

Pension Plan and Post-Employment Obligations

Local Governmental Employees' Retirement System

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

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Kannapolis employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Kannapolis' contractually required contribution rate for the year ended June 30, 2017, was 8.31% of compensation for law enforcement officers and 7.56% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Kannapolis were \$1,200,412 for the year ended June 30, 2017.

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

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

At June 30, 2017, the City reported a liability of \$6,050,778 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2016, the City's proportion was 0.002851%, which was a decrease of 0.01807% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$1,468,095. At June 30, 2017, 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	\$ 113,684	\$ 212,026
Changes of assumptions	414,424	-
Net difference between projected and actual earnings on pension plan investments	3,345,318	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	459,223
Employer contributions subsequent to the measurement date	1,200,412	-
Total	<u>\$ 5,073,838</u>	<u>\$ 671,249</u>

\$1,200,412 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. 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
2018	\$ 391,384
2019	392,557
2020	1,502,237
2021	915,999
2022	-
Thereafter	-
Total	<u>\$ 3,202,177</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
City's proportionate share of the net pension liability (asset)	<u>\$ 14,361,317</u>	<u>\$ 6,050,778</u>	<u>\$ (890,804)</u>

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

Special Separation Allowance

Plan Description. The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified full-time employees. The 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, 2016, the Separation Allowance's membership consisted of:

Retirees receiving benefits	22
Active plan members	<u>318</u>
Total	<u>340</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Summary of Significant Accounting Policies

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

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

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

Inflation	3.0 percent
Projected salary increases	3.5 to 7.75 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond index determined at the end of each month.

Mortality rates are based on the RP-2014 Mortality tables with adjustments for mortality improvements based on the MP-2015.

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

Deaths before Retirement: RP-2014 Employee base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015.

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

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

Contributions. The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The City's obligation to contribute to this plan is

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 \$335,889 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, 2017, the City reported a total pension liability of \$6,222,001. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the City recognized pension expense of \$475,151.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Benefit payments and administrative costs subsequent to measurement date	\$ 187,012	\$ -
Changes of assumptions and other inputs	<u>-</u>	<u>133,494</u>
Total	<u><u>\$ 187,012</u></u>	<u><u>\$ 133,494</u></u>

\$187,012 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2018	\$ 27,525
2019	27,525
2020	27,525
2021	27,525
2022	23,394
Thereafter	<u>-</u>
Total	<u><u>\$ 133,494</u></u>

\$185,967 paid as benefits came due and \$1,045 of administrative expense subsequent to the measurement date are reported as deferred outflows of resources.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Sensitivity of the City's Total Pension Liability to Changes in the Discount Rate. The following presents the City's total pension liability calculated using the discount rate of 3.86 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total pension liability	<u>\$ 6,796,732</u>	<u>\$ 6,222,001</u>	<u>\$ 5,700,924</u>

Schedule of Changes in Total Pension Liability Special Separation Allowance

Beginning balance	\$ 6,217,278
Service cost	285,670
Interest on the total pension liability	215,961
Changes of assumptions and other inputs	(161,019)
Benefit payments made	(335,889)
Net change in total pension liability	<u>4,723</u>
Ending balance of the total pension liability	<u>\$ 6,222,001</u>

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements. The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Supplemental Retirement Income Plan Law Enforcement Officers

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017 were \$304,357, which consisted of \$211,688 from the City and \$92,669 from the law enforcement officers. No amounts were forfeited.

Deferred Compensation Plan

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

The City has complied with changes in the laws that govern the City's deferred compensation plan, requiring all assets of the plan to be held in trust for the exclusive benefit of the participants and their beneficiaries. Formerly, the undistributed amounts, which had been deferred by the plan participants, were required to be reported as assets of the City. In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the City's deferred compensation plan is no longer reported within the City's agency funds. The City contributes to the plan on behalf of the City Manager. During the year ended June 30, 2017, the City contributed \$8,169 to this account.

Other Post-Employment Benefits

Plan Description. The City has established a policy as a single-employer defined benefit plan providing group medical and dental benefits to employees eligible to retire under the requirements of the Local Government Employees' Retirement System noted above. Currently, fifty-nine (59) retirees are eligible. The benefit provided by the City varies from -0-% to 75% of the monthly premium, depending on years of service. The retiree is required to make up the difference in the benefit provided and the actual cost of the insurance. The coverage provided is the same type as was in effect immediately preceding the retirement date. If the retiree is or becomes eligible for Medicare, the City's policy pays secondary to Medicare. A separate report was not issued for the plan.

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

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

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

The current ARC rate is 23% of annual covered payroll. For the current year, the City contributed \$726,438, or 5% of annual covered payroll. Retirees pay 100%, 50%, or 25% of the premiums, based on their creditable years of retirement service. Employee health coverage is self-insured and administered through a third-party insurer. The City's obligation to contribute to the plan is established and may be amended by the City Council.

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

Annual required contribution	\$ 3,223,073
Interest on net OPEB obligation	612,523
Adjustments to annual required contribution	<u>(585,150)</u>
Annual OPEB cost (expense)	3,250,446
Contributions made	<u>(726,438)</u>
Increase (decrease) in net OPEB obligation	2,524,008
Net OPEB obligation:	
Beginning of year - July 1	<u>15,313,077</u>
End of year - June 30	<u><u>\$ 17,837,085</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2017 were as follows:

3 Year Trend Information			
Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 2,891,197	23.1%	\$12,461,076
2016	3,151,472	9.5%	15,313,077
2017	3,250,446	22.3%	17,837,085

Funding Status and Funding Progress. As of June 30, 2016, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$35,270,692. The covered payroll (annual payroll of active employees covered by the plan) was \$13,974,196, and the ratio of the UAAL to the covered payroll was 252.4 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

In the June 30, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual pre-medicare cost trend rate of 7.75 to 5.00 percent annually and medicare trend rate of 5.75 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term, volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at June 30, 2016 was 30 years.

As of June 30, 2017, management had not decided on the funding options for this outstanding obligation; therefore, OPEB will continue to be funded on a pay-as-you-go basis going into the next fiscal year. Management will continue their efforts to find a way to fund the annual required contribution while maintaining the level of service as prioritized by the City Council.

Other Employment Benefits

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Deferred Outflows and Inflows of Resources

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

	Deferred Outflows of Resources
Governmental Activities:	
Contributions to pension plan in current fiscal year	\$ 1,200,412
Differences between expected and actual experience	113,684
Changes of assumptions	414,424
Net difference between projected and actual earnings on pension plan investments	3,345,318
Benefit payments and administrative costs for LEOSA	187,012
Total	<u>\$ 5,260,850</u>

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

	Statement of Net Position	General Fund Balance Sheet
Prepaid taxes	\$ 14,636	\$ 14,636
Taxes receivable, net	-	478,627
Cabarrus County contribution - fire station	-	280,831
Differences between expected and actual experience	212,026	-
Changes in assumptions	133,494	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	459,223	-
Total	<u>\$ 819,379</u>	<u>\$ 774,094</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Long-Term Obligations

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

Changes in Long-Term Debt – Governmental Funds

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Current</u> <u>Portion</u>
Notes payable	\$ 8,622,689	\$ 335,000	\$ 1,205,860	\$ 7,751,829	\$ 1,129,097
U.S. government obligations	453,000	-	203,000	250,000	50,000
Limited obligation bonds	53,045,000	-	3,105,000	49,940,000	3,195,000
Premium on debt issuance	2,151,700	-	121,223	2,030,477	121,223
Net pension liability (LGERS)	1,115,699	3,845,939	-	4,961,638	-
Compensated absences	1,048,927	1,626,676	1,643,600	1,032,003	774,002
Other post-employment benefits	12,194,145	2,631,313	588,069	14,237,389	-
Total pension liability (LEOSSA)	<u>1,641,764</u>	<u>3,448,964</u>	<u>-</u>	<u>5,090,728</u>	<u>-</u>
Total	<u>\$ 80,272,924</u>	<u>\$ 11,887,892</u>	<u>\$ 6,866,752</u>	<u>\$ 85,294,064</u>	<u>\$ 5,269,322</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Governmental Activities – Notes Payable

Various notes payable secured by personal property. See schedule below for terms and portion funded by the Enterprise Fund and a portion funded by the General Fund.

\$ 379,382

2.08% note, payable in semi-annual installments of \$82,190, excluding interest beginning September, 2013 through March 2023; secured by a municipal building and a fire truck.

972,834

2.0% note, payable in semi-annual installments of \$26,133, excluding interest beginning October 2012 through June 2021; secured by park building.

209,066

1.98% note, payable in semi-annual installments ranging from \$109,245 to \$414,098, including interest beginning June, 2013 through June, 2023; secured by street improvements and a fire station

2,670,111

0% note, payable to County in annual installments of \$62,500, beginning April 2014 through April 2061, secured by the stadium.

2,750,000

1.24% note, payable in quarterly installments of \$39,794, including interest beginning July 5, 2015 through April 5, 2020; secured by the equipment purchased with proceeds and any related additions, accessions, repairs, replacements, substitutions, and modifications.

467,911

1.51% note, payable in quarterly installments of \$17,475, including interest beginning February 4, 2016 through October 4, 2021; secured by the equipment with proceeds and any related additions, accessions, repairs, replacements, substitutions, and modifications.

302,525

Total

\$ 7,751,829

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

<u>Date Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Annual Payments</u>		<u>Balance June 30, 2017</u>	
			<u>General Fund</u>	<u>Enterprise Fund</u>	<u>General Fund</u>	<u>Enterprise Fund</u>
June 2011	4.05%	June 2025	<u>\$ 42,154</u>	<u>\$ 94,090</u>	<u>\$ 379,382</u>	<u>\$ 846,804</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,129,097	\$ 97,930	\$ 1,288,202
2019	1,122,003	77,223	1,157,125
2020	1,104,273	56,729	1,129,324
2021	802,978	37,965	1,091,095
2022	638,899	23,266	662,165
2023 - 2027	859,603	20,254	879,857
2028 - 2032	312,500	-	312,500
2033 - 2037	312,500	-	312,500
2038 - 2042	312,500	-	312,500
2043 - 2047	312,500	-	312,500
2048 - 2052	312,500	-	312,500
2053 - 2057	312,500	-	312,500
2058 - 2061	219,976	-	219,976
Total	<u>\$ 7,751,829</u>	<u>\$ 313,367</u>	<u>\$ 8,302,744</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Governmental Activities - U.S. Government Obligations

A Section 108 loan of \$742,000 was executed on August 28, 2006 with the Department of Housing and Urban Development. A principal payment of \$50,000 was due August 2017. Principal payments were \$49,000 until August 2015 when they increased to \$50,000. Interest is due semi-annually at rates from 4.96% to 5.57%, on February 1 and August 1, respectively. This obligation is to be used in the construction of Gateway Business Park. The principal balance due at June 30, 2017 was \$250,000.

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

Year Ending June 30	Principal	Interest	Total
2018	\$ 50,000	\$ 12,280	\$ 62,280
2019	50,000	9,610	59,610
2020	50,000	6,903	56,903
2021	50,000	4,162	54,162
2022	50,000	1,393	51,393
Total	<u>\$ 250,000</u>	<u>\$ 34,348</u>	<u>\$ 284,348</u>

Limited Obligation Bonds

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

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

The City's limited obligation bonds payable at June 30, 2017 are comprised of the following individual issues:

- Series 2010A Limited Obligation Bonds, \$7,400,000
- Series 2010B Limited Obligation Bonds, \$19,310,000
- Series 2014 Limited Obligation Bonds, \$23,230,000

Governmental Activities – Limited Obligation Bonds:

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

\$ 26,710,000

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

23,230,000

Total

\$ 49,940,000

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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
2018	\$ 3,195,000	\$ 2,761,424	\$ 5,956,424
2019	3,285,000	2,615,374	5,900,374
2020	5,030,000	2,464,824	7,494,824
2021	3,525,000	2,213,324	5,738,324
2022	3,625,000	1,987,940	5,612,940
2023 - 2027	21,725,000	6,317,809	28,042,809
2028 - 2032	6,825,000	1,337,106	8,162,106
2033 - 2034	2,730,000	148,444	2,878,444
Total	<u>\$ 49,940,000</u>	<u>\$ 19,846,246</u>	<u>\$ 69,786,246</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
2018	\$ 121,223
2019	121,223
2020	121,223
2021	121,223
2022	121,223
2023 - 2027	606,115
2028 - 2032	606,115
2033 - 2034	212,132
Total	<u>\$ 2,030,477</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2017</u>	<u>Current Maturities</u>
Water and Sewer Fund:					
Revenue bonds	\$ 29,365,629	\$ -	\$ 2,032,304	\$ 27,333,325	\$ 2,098,025
Notes payable	2,303,206	380,000	353,429	2,329,777	369,687
Net pension liability (LGERS)	190,485	656,624	-	847,109	-
Other post-employment benefits	2,434,826	464,350	103,777	2,795,399	-
Total pension liability (LEOSSA)	-	886,164	-	886,164	-
Compensated absences	<u>124,106</u>	<u>171,964</u>	<u>177,142</u>	<u>118,928</u>	<u>89,196</u>
Total	<u>34,418,252</u>	<u>2,559,102</u>	<u>2,666,652</u>	<u>34,310,702</u>	<u>2,556,908</u>
Stormwater Fund:					
Notes payable	3,554,319	-	604,205	2,950,114	597,008
Net pension liability (LGERS)	54,424	187,607	-	242,031	-
Other post-employment benefits	684,106	154,783	34,592	804,297	-
Total pension liability (LEOSSA)	-	245,109	-	245,109	-
Compensated absences	<u>28,144</u>	<u>67,727</u>	<u>65,130</u>	<u>30,741</u>	<u>23,056</u>
Total	<u>4,320,993</u>	<u>655,226</u>	<u>703,927</u>	<u>4,272,292</u>	<u>620,064</u>
Downtown Kannapolis Fund:					
Notes payable	<u>11,000,000</u>	<u>-</u>	<u>734,000</u>	<u>10,266,000</u>	<u>734,000</u>
Total	<u>11,000,000</u>	<u>-</u>	<u>734,000</u>	<u>10,266,000</u>	<u>734,000</u>
Business-Type Activities:					
Revenue bonds	29,365,629	-	2,032,304	27,333,325	2,098,025
Notes payable	16,857,525	380,000	1,691,634	15,545,891	1,700,695
Net pension liability (LGERS)	244,909	844,231	-	1,089,140	-
Other post-employment benefits	3,118,932	619,133	138,369	3,599,696	-
Total pension liability (LEOSSA)	-	1,131,273	-	1,131,273	-
Compensated absences	<u>152,250</u>	<u>239,691</u>	<u>242,272</u>	<u>149,669</u>	<u>112,252</u>
Total	<u>\$ 49,739,245</u>	<u>\$ 3,214,328</u>	<u>\$ 4,104,579</u>	<u>\$ 48,848,994</u>	<u>\$ 3,910,972</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

At June 30, 2017, the City had no authorized, but unissued, debt and a legal debt margin of \$238,848,364.

Revenue Bonds

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

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

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

\$5,324,000 Enterprise System Revenue Bonds, Series 2002, with an interest-only payment in February of 2003, and equal payments of \$235,922 semi-annually August 1 and February 1, starting in 2003 until 2018; interest rate is 3.89%	\$ 458,425
\$16,300,300 Combined Enterprise System Revenue Bonds, Refunding Series due annually in amounts ranging from \$875,000 to \$1,420,000 through February 2025; interest rate of 2.85%	10,089,900
\$18,245,000 Enterprise System Revenue Bonds, Series 2013, due annually in amounts ranging from \$470,000 to \$1,030,000 through April 2038; interest ranging from 3.00% to 4.75%	<u>16,785,000</u>
Total	<u>\$ 27,333,325</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

Year Ending June 30	Principal	Interest	Total
2018	\$ 2,098,025	\$ 1,013,742	\$ 3,111,767
2019	1,691,300	947,559	2,638,859
2020	1,734,000	898,539	2,632,539
2021	1,799,800	837,080	2,636,880
2022	1,920,000	760,404	2,680,404
2023 - 2027	7,575,200	2,929,118	10,504,318
2028 - 2032	4,170,000	2,017,581	6,187,581
2033 - 2037	5,165,000	1,023,100	6,188,100
2038	1,180,000	56,050	1,236,050
Total	<u>\$ 27,333,325</u>	<u>\$ 10,483,174</u>	<u>\$ 37,816,499</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The debt service parity coverage ratio calculation for the year ended June 30, 2017 is as follows:

2018 budgeted revenues	\$ 17,527,200
50% of surplus fund at June 30, 2018	424,998
2018 budgeted expenses *	<u>(8,102,590)</u>
Operating income	<u>\$ 9,849,608</u>
Debt service on parity indebtedness	\$ 3,734,123
Debt service on subordinate indebtedness	<u>440,355</u>
Total	<u>\$ 4,174,478</u>
Debt service parity coverage ratio	<u>236%</u>
2018 budgeted revenues	\$ 17,527,200
2018 budgeted expenses *	<u>(8,102,590)</u>
Operating income	<u>\$ 9,424,610</u>
Debt service on parity indebtedness	\$ 3,422,946
Debt service on subordinate indebtedness	<u>440,355</u>
Total	<u>\$ 3,863,301</u>
Debt service parity coverage ratio	<u>244%</u>

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

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$39,969,300 in water and sewer system revenue bonds issued in 2002, 2011, and 2013. Proceeds from the bonds provided financing for water and sewer extensions and water treatment plant renovations. The bonds are payable solely from water and sewer customer net revenues and are payable through 2038. Annual principal and interest payments on the bonds are expected to require about 21 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$27,333,325. Principal and interest paid for in the current year and total customer net revenues were \$3,114,526 and \$15,803,570, respectively.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Business-Type Activities – Notes Payable:

4.09% note, payable in annual installments of \$76,633, plus interest beginning September 2007 through September 2021; secured by water improvements associated with the North Carolina Research Campus Development.	\$ 383,167
3.48% note, with one payment of \$32,041 made October 2008, then payable in semi-annual installments of \$31,794, including interest beginning April 2009 through April 2023; secured by water improvements.	341,662
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.	227,577
1.98% note, payable in semi-annual installments ranging \$13,904 to \$52,703 including interest beginning June 2013 through June 2023; secured by street and stormwater improvements.	345,243
2.08% note, payable in semi-annual installments ranging from \$64,595 to \$77,490, including interest beginning September 2013 through March 2023; secured by street and stormwater improvements.	767,166
1.98% note, payable in semi-annual installments ranging from \$75,478 to \$286,104, including interest beginning June, 2013 through June, 2023; secured by street and stormwater improvements.	1,892,070
Various notes payable secured by personal property. See schedule above for terms and portion funded by the enterprise funds and a portion funded by the General Fund.	846,804
1.24% note, payable in quarterly installments of \$11,296, including interest beginning July 5, 2015 through April 5, 2020; secured by the equipment purchased with proceeds and any related additions, accessions, repairs, replacements, substitutions, and modifications.	132,822
4.77% note, payable in annual installments of \$734,000, including interest beginning February 1, 2016 through August 1, 2030; secured by land and improvements associated with Downtown Kannapolis.	10,266,000
1.51% note, payable in quarterly installments of \$19,706, including interest beginning February 4, 2016 through October 4, 2021; secured by the equipment purchased with proceeds and any related additions, accessions, repairs, replacements, substitutions, and modifications.	<u>343,380</u>
Total	<u>\$ 15,545,891</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,700,695	\$ 600,647	\$ 2,301,342
2019	1,695,991	542,624	2,238,615
2020	1,682,641	484,719	2,167,360
2021	1,522,792	427,772	1,950,564
2022	1,422,882	373,235	1,796,117
2023 - 2027	4,513,029	1,190,019	5,703,048
2028 - 2031	3,007,861	285,357	3,293,217
Total	<u>\$ 15,545,891</u>	<u>\$ 3,904,372</u>	<u>\$ 19,450,263</u>

3. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2017 consist of the following:

Due To/From Fund	Receivable (Payable) Amount	Purpose
General Fund	<u>\$ 102,701</u>	
Nonmajor governmental funds:		
CDBG fund	\$ (48,417)	Advance for grants
Capital Projects - Irish Buffalo Creek Greenway	<u>(54,284)</u>	Advance for capital projects
Total	<u>\$ (102,701)</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Interfund transfers for the fiscal year ended June 30, 2017 consist of the following:

	<u>From</u>	<u>To</u>	<u>Purpose</u>
General Fund	\$ 6,267,272	\$ -	
Nonmajor governmental funds:			
Transit Fund	-	245,300	Operating expenditures
Village Park Phase III	-	1,150,000	Capital expenditures
Fire Stations	-	830,000	Capital expenditures
Oak Ave Sidewalk Project	-	100,000	Capital expenditures
Afton/Goodman Road Extension		772	Capital expenditures
Downtown Fund	-	3,941,200	Operating expenditures
 General Fund	 -	 118,807	
City Office/Public Safety Building	118,807	-	Close of Capital Project Fund
 General Fund	 1,000,000	 -	
Major enterprise funds:			
Environmental Services Fund	-	1,000,000	Operating expenditures
 Water and Sewer Fund	 1,364,700	 -	
Stormwater Fund	-	500,000	Operating expenditures
Environmental Services Fund	-	864,700	Operating expenditures
Total	<u>\$ 8,750,779</u>	<u>\$ 8,750,779</u>	

4. Jointly Governed Organizations

The City, Cabarrus County, and three other municipalities established the Water and Sewer Authority of Cabarrus County (WSACC). WSACC was established to provide water and sewer services to the citizens of Cabarrus County. The City appoints two members to the ten-member Board. The City purchased sewer transportation services amounting to \$2,927,005 from WSACC for the year ended June 30, 2017.

5. Significant Economic Dependence

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

6. Risk Management

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

The City's coverage is as follows:

Property	\$193,146,621 property, inland marine - equipment \$3,044,923; computer equipment/media, \$2,058,756; fine arts \$292,675; and portable equipment \$1,623,569
Impounded Auto	\$100,000 each accident
Police Official's Liability	\$1,000,000 per occurrence, \$3,000,000 aggregate
Public Official's Liability	\$1,000,000 per occurrence, \$3,000,000 aggregate
General Liability	\$5,000,000 per occurrence
Automobile Liability	\$5,000,000; uni \$1,000,000
Workers' Compensation	Legal limits, \$500,000 retention
Employee Crime/Dishonesty	\$250,000 per occurrence
Employment Practices	\$1,000,000 per occurrence, \$3,000,000 aggregate
Finance Director Bond	\$50,000
Tax Collector	\$10,000
Employee Benefits Liability	\$1,000,000 per occurrence
Liquor	\$1,000,000 per occurrence

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

The City does not carry flood insurance.

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

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

	<u>2017</u>	<u>2016</u>
Unpaid claims:		
Beginning of year - July 1	\$ 183,539	\$ 116,551
Incurred claims	2,905,767	2,167,450
Claim payments	<u>(2,907,843)</u>	<u>(2,100,462)</u>
End of year - June 30	<u>\$ 181,463</u>	<u>\$ 183,539</u>

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

	<u>2017</u>	<u>2016</u>
Unpaid claims:		
Beginning of year - July 1	\$ 609,486	\$ 295,586
Incurred claims	1,285,986	582,320
Claim payments	<u>(1,106,180)</u>	<u>(268,420)</u>
End of year - June 30	<u>\$ 789,292</u>	<u>\$ 609,486</u>

Claims typically have been liquidated in the General Fund.

7. Claims and Judgments

At June 30, 2017, the City was a defendant to various lawsuits. In the opinion of the City's Management and the City Attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

8. Summary Disclosure of Significant Contingencies

The City has received proceeds from several federal and State grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

CITY OF KANNAPOLIS, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

9. Net Investment in Capital Assets

The City's net investment in capital assets at June 30, 2017 is calculated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net capital assets	\$ 175,036,319	\$ 112,620,584
Total debt, gross	59,972,306	42,879,216
Less:		
Unexpended proceeds	<u>335,022</u>	<u>1,954,144</u>
Total capital debt	<u>59,637,284</u>	<u>40,925,072</u>
Net investment in capital assets	<u>\$ 115,399,035</u>	<u>\$ 71,695,512</u>

10. Change in Accounting Principles/Restatement

The City implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the City to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the City to the Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$3,169,427 and net position for the business-type activities decreased \$1,069,154.

Required Supplemental Financial Data

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

<i>Special Separation Allowance –</i>	Schedule of Changes in Total Pension Liability and Schedule of Total Pension Liability as a Percentage of Covered Payroll
<i>Other Post-Employment Benefits –</i>	Schedule of Funding Progress and Schedule of Employer Contributions
<i>Local Government Employees’ Retirement System –</i>	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
FOR THE YEAR ENDED JUNE 30, 2017**

Special Separation Allowance	
	2017
Beginning balance	\$ 6,217,278
Service cost	285,670
Interest on the total pension liability	215,961
Changes in assumptions or other inputs	(161,019)
Benefit payments	(335,889)
Ending balance of the total pension liability	<u>\$ 6,222,001</u>

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

CITY OF KANNAPOLIS, NORTH CAROLINA

**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
SPECIAL SEPARATION ALLOWANCE
FOR THE YEAR ENDED JUNE 30, 2017**

Special Separation Allowance	
	2017
Total pension liability	\$ 6,222,001
Covered payroll	15,604,787
Total pension liability as a percentage of covered payroll	39.87%

Notes to schedules:

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

CITY OF KANNAPOLIS, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2009	\$ -	\$ 19,485,853	\$ 19,485,853	0.00%	\$ 12,177,773	160.0%
12/31/2012	-	28,628,936	28,628,936	0.00%	13,000,134	220.2%
12/31/2014	-	33,060,656	33,060,656	0.00%	13,968,728	236.7%
6/30/2016	-	35,270,692	35,270,692	0.00%	13,974,196	252.4%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2012	\$ 1,858,549	43.1%
2013	2,789,218	10.9%
2014	2,789,218	5.0%
2015	2,872,895	23.3%
2016	3,129,197	9.6%
2017	3,223,073	22.5%

Notes to the Required Schedules:

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

Valuation date	6/30/2016
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, closed
Remaining amortization period	30 years
Amortization factor	26.1695
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rates:	
Pre-Medicare trend rate	7.75% - 5.00%
Post-Medicare trend rate	5.75% - 5.00%
Year of ultimate trend rate	2022

* Includes inflation at 3.0%

CITY OF KANNAPOLIS, NORTH CAROLINA

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

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

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

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA**LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM****REQUIRED SUPPLEMENTARY INFORMATION****CITY OF KANNAPOLIS' CONTRIBUTIONS****LAST FOUR FISCAL YEARS**

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

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

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General Fund

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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Current year, net of refund	\$ 23,708,300	\$ 24,486,215	\$ 777,915
Prior year, net of refunds	450,000	373,054	(76,946)
Total	<u>24,158,300</u>	<u>24,859,269</u>	<u>700,969</u>
Other Taxes and Licenses:			
Vehicle licenses	380,000	396,685	16,685
Local option sales tax	7,838,900	9,246,482	1,407,582
Other taxes and licenses	5,000	6,770	1,770
Total	<u>8,223,900</u>	<u>9,649,937</u>	<u>1,426,037</u>
Unrestricted Intergovernmental:			
Franchise tax	2,650,000	2,727,263	77,263
Beer and wine	210,000	206,388	(3,612)
ABC profit distribution	75,000	83,171	8,171
Rowan County contribution	4,000	4,020	20
Total	<u>2,939,000</u>	<u>3,020,842</u>	<u>81,842</u>
Restricted Intergovernmental:			
"State Street-Aid" allocation	1,280,000	1,288,856	8,856
Controlled substance tax	-	72,660	72,660
Federal Asset Forfeiture Funds	-	19,767	19,767
NC Department of Commerce	94,340	94,340	-
TIF contribution Cabarrus County	1,511,400	1,521,960	10,560
Total	<u>2,885,740</u>	<u>2,997,583</u>	<u>111,843</u>
Sales and Services:			
Public safety fees	106,000	142,291	36,291
Rents	155,000	117,746	(37,254)
Other fees	550,000	484,405	(65,595)
Total	<u>811,000</u>	<u>744,442</u>	<u>(66,558)</u>
Investment Earnings	<u>150,000</u>	<u>298,604</u>	<u>148,604</u>
Miscellaneous	<u>929,304</u>	<u>1,349,729</u>	<u>420,425</u>
Total revenues	<u>40,097,244</u>	<u>42,920,406</u>	<u>2,823,162</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	Final Budget	Actual	Variance Over/Under
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits	85,547	75,204	10,343
Operating expenditures	104,800	91,561	13,239
Total	190,347	166,765	23,582
City Manager:			
Salaries and employee benefits	732,597	730,236	2,361
Operating expenditures	78,500	61,261	17,239
Total	811,097	791,497	19,600
Human Resources:			
Salaries and employee benefits	363,863	359,319	4,544
Operating expenditures	96,800	98,558	(1,758)
Total	460,663	457,877	2,786
Attorney:			
Salaries and employee benefits	241,440	240,931	509
Operating expenditures	147,700	145,102	2,598
Total	389,140	386,033	3,107
Finance:			
Salaries and employee benefits	609,847	605,554	4,293
Operating expenditures	282,100	260,081	22,019
Total	891,947	865,635	26,312
Information Technology:			
Contract services	435,000	435,003	(3)
Operating expenditures	634,919	631,881	3,038
Total	1,069,919	1,066,884	3,035
General Services:			
Salaries and employee benefits	623,346	588,522	34,824
Operating expenditures	950,792	897,365	53,427
Capital outlay	25,000	24,687	313
Total	1,599,138	1,510,574	88,564
Economic Development:			
Operating expenditures	579,466	462,493	116,973

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, 2017

	Final Budget	Actual	Variance Over/Under
Communications:			
Operating expenditures	420,500	363,124	57,376
Capital outlay	208,340	72,011	136,329
Total	628,840	435,135	193,705
Non-Departmental:			
Operating expenditures	1,167,000	989,468	177,532
Total	1,167,000	989,468	177,532
Total general government	7,787,557	7,132,361	655,196
Public Safety:			
Police:			
Salaries and employee benefits	6,737,608	6,735,067	2,541
Operating expenditures	1,244,444	1,060,412	120,243
Capital outlay	698,500	726,631	(28,131)
Total	8,680,552	8,522,110	94,653
Fire:			
Salaries and employee benefits	5,965,429	5,963,813	1,616
Operating expenditures	1,051,753	1,033,491	18,262
Capital outlay	202,847	187,179	15,668
Total	7,220,029	7,184,483	35,546
Total public safety	15,900,581	15,706,593	193,988
Public Works:			
Engineering:			
Salaries and employee benefits	522,389	494,035	28,354
Operating expenditures	50,156	38,623	11,533
Capital outlay	25,000	23,286	1,714
Contract services	611,203	561,184	50,019
Total	1,208,748	1,117,128	91,620
Streets and Highways:			
Salaries and employee benefits	293,588	290,556	3,032
Operating expenditures	1,457,500	1,404,622	52,878
Capital outlay	565,450	303,605	261,845
Total	2,316,538	1,998,783	317,755

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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Powell Bill:			
Salaries and employee benefits	409,484	397,178	12,306
Operating expenditures	<u>778,000</u>	<u>768,512</u>	<u>9,488</u>
Total	<u>1,187,484</u>	<u>1,165,690</u>	<u>21,794</u>
 Total public works	 <u>4,712,770</u>	 <u>4,281,601</u>	 <u>431,169</u>
 Community Development:			
Planning:			
Salaries and employee benefits	584,521	575,609	8,912
Operating expenditures	<u>211,320</u>	<u>165,042</u>	<u>46,278</u>
Total	<u>795,841</u>	<u>740,651</u>	<u>55,190</u>
 Total community development	 <u>795,841</u>	 <u>740,651</u>	 <u>55,190</u>
 Parks and Recreation Programs:			
Salaries and employee benefits	939,510	882,708	56,802
Operating expenditures	738,421	686,737	51,684
Capital outlay	<u>1,049,022</u>	<u>781,512</u>	<u>267,510</u>
Total	<u>2,726,953</u>	<u>2,350,957</u>	<u>375,996</u>
 Stadium:			
Operating expenditures	<u>248,000</u>	<u>221,715</u>	<u>26,285</u>
Total	<u>248,000</u>	<u>221,715</u>	<u>26,285</u>
 Total parks and recreation	 <u>2,974,953</u>	 <u>2,572,672</u>	 <u>402,281</u>
 Debt Service:			
Principal retirement	4,316,400	4,310,860	5,540
Interest and fees	<u>3,197,223</u>	<u>3,029,103</u>	<u>168,120</u>
Total debt service	<u>7,513,623</u>	<u>7,339,963</u>	<u>173,660</u>
 Total expenditures	 <u>39,685,325</u>	 <u>37,773,841</u>	 <u>1,911,484</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	Final Budget	Actual	Variance Over/Under
Revenues over (under) expenditures	411,919	5,146,565	4,734,646
Other Financing Sources (Uses):			
Long-term debt issued	635,000	335,000	(300,000)
Transfers in	-	118,807	118,807
Transfers out	(7,267,272)	(7,267,272)	-
Appropriated fund balance	6,220,353	-	(6,220,353)
Total other financing sources (uses)	(411,919)	(6,813,465)	(6,401,546)
Net change in fund balance	<u>\$ -</u>	(1,666,900)	<u>\$ (1,666,900)</u>
Fund Balance:			
Beginning of year - July 1		<u>19,753,212</u>	
End of year - June 30		<u>\$ 18,086,312</u>	

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Major Capital Project Fund

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

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CITY OF KANNAPOLIS, NORTH CAROLINA

MAJOR CAPITAL PROJECT FUND - CITY OFFICE/PUBLIC SAFETY BUILDING
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Investment earnings	\$ 63,065	\$ 63,065	\$ -	\$ 63,065
Contributions	6,491	6,492	-	6,492
Total revenues	<u>69,556</u>	<u>69,557</u>	<u>-</u>	<u>69,557</u>
Expenditures:				
Contracted services	5,709,399	5,516,441	192,959	5,709,400
Furniture and fixtures	1,410,469	1,290,141	127,833	1,417,974
Capital outlay	26,115,621	26,032,791	75,326	26,108,117
Debt service:				
Interest and fees	289,951	289,950	-	289,950
Total expenditures	<u>33,525,440</u>	<u>33,129,323</u>	<u>396,118</u>	<u>33,525,441</u>
Revenues over (under) expenditures	<u>(33,455,884)</u>	<u>(33,059,766)</u>	<u>(396,118)</u>	<u>(33,455,884)</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	25,219,999	25,220,000	-	25,220,000
Premium on long-term debt	2,303,246	2,303,246	-	2,303,246
Transfers in	6,051,445	6,051,445	-	6,051,445
Transfer out	(118,806)	-	(118,807)	(118,807)
Total other financing sources (uses)	<u>33,455,884</u>	<u>33,574,691</u>	<u>(118,807)</u>	<u>33,455,884</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 514,925</u>	<u>\$ (514,925)</u>	<u>\$ -</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2017

	<i>Schedule C-1</i>	<i>Schedule D-1</i>	
	Special	Capital	
	Revenue	Project	
	Funds	Funds	Total
Assets:			
Cash and investments	\$ 623,432	\$ 615,551	\$ 1,238,983
Long-term receivable	174,013	-	174,013
Due from other governments	91,641	144,211	235,852
Cash and cash equivalents, restricted	213,798	-	213,798
Total assets	<u>\$ 1,102,884</u>	<u>\$ 759,762</u>	<u>\$ 1,862,646</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 96,975	\$ 58,358	\$ 155,333
Due to other funds	48,417	54,284	102,701
Total liabilities	<u>145,392</u>	<u>112,642</u>	<u>258,034</u>
Fund Balances:			
Restricted:			
Stabilization for State statute	265,654	144,211	409,865
Restricted, all other	757,129	-	757,129
Committed	-	619,937	619,937
Unassigned	(65,291)	(117,028)	(182,319)
Total fund balances	<u>957,492</u>	<u>647,120</u>	<u>1,604,612</u>
Total liabilities and fund balances	<u>\$ 1,102,884</u>	<u>\$ 759,762</u>	<u>\$ 1,862,646</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

**NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2017**

	<i>Schedule C-2</i> Special Revenue Funds	<i>Schedule D-2</i> Capital Project Funds	Total
Revenues:			
Other taxes and licenses	\$ 198,343	\$ -	\$ 198,343
Restricted intergovernmental	354,601	156,108	510,709
Investment earnings	135	-	135
Total revenues	<u>553,079</u>	<u>156,108</u>	<u>709,187</u>
Expenditures:			
Economic development	893,618	768	894,386
Contracted services	-	249,318	249,318
Capital outlay	-	1,669,383	1,669,383
Total expenditures	<u>893,618</u>	<u>1,919,469</u>	<u>2,813,087</u>
Revenues over (under) expenditures	(340,539)	(1,763,361)	(2,103,900)
Other Financing Sources (Uses):			
Transfers in	<u>245,300</u>	<u>2,080,772</u>	<u>2,326,072</u>
Net change in fund balances	(95,239)	317,411	222,172
Fund Balances:			
Beginning of year - July 1	<u>1,052,731</u>	<u>329,709</u>	<u>1,382,440</u>
End of year - June 30	<u>\$ 957,492</u>	<u>\$ 647,120</u>	<u>\$ 1,604,612</u>

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Special Revenue Funds

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

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

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

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CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2017

	Community Development Block Grant	Transit Tax Fund	Total
Assets:			
Cash and investments	\$ -	\$ 623,432	\$ 623,432
Long-term receivable	174,013	-	174,013
Due from other governments	91,641	-	91,641
Restricted cash	213,798	-	213,798
Total assets	<u>\$ 479,452</u>	<u>\$ 623,432</u>	<u>\$ 1,102,884</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 16,874	\$ 80,101	\$ 96,975
Due to other funds	48,417	-	48,417
Total liabilities	<u>65,291</u>	<u>80,101</u>	<u>145,392</u>
Fund Balances:			
Restricted:			
Stabilization for State statute	265,654	-	265,654
Restricted, all other	213,798	543,331	757,129
Unassigned	(65,291)	-	(65,291)
Total fund balances	<u>414,161</u>	<u>543,331</u>	<u>957,492</u>
Total liabilities and fund balances	<u>\$ 479,452</u>	<u>\$ 623,432</u>	<u>\$ 1,102,884</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

	Community Development Block Grant	Transit Tax Fund	Total
Revenues:			
Other taxes and licenses	\$ -	\$ 198,343	\$ 198,343
Restricted intergovernmental	354,601	-	354,601
Investment earnings	135	-	135
Total revenues	<u>354,736</u>	<u>198,343</u>	<u>553,079</u>
Expenditures:			
Current:			
Economic development	<u>493,601</u>	<u>400,017</u>	<u>893,618</u>
Revenues over (under) expenditures	(138,865)	(201,674)	(340,539)
Other Financing Sources (Uses):			
Transfers in (out)	<u>-</u>	<u>245,300</u>	<u>245,300</u>
Net change in fund balances	(138,865)	43,626	(95,239)
Fund Balances:			
Beginning of year - July 1	<u>553,026</u>	<u>499,705</u>	<u>1,052,731</u>
End of year - June 30	<u>\$ 414,161</u>	<u>\$ 543,331</u>	<u>\$ 957,492</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, 2017**

	Project Authorization	Prior Years	Actual Current Year	Total To Date
Revenues:				
CDBG 2006	\$ 2,139,282	\$ 2,139,282	\$ -	\$ 2,139,282
CDBG 2012	354,220	354,220	-	354,220
CDBG 2013	352,879	352,879	-	352,879
CDBG 2014	325,452	325,452	-	325,452
CDBG 2016	326,534	82,464	230,449	312,913
CDBG 2017	341,246	-	-	-
CDBG 2015 Program Income	-	1,060	-	1,060
2011 HOME Program Grant	124,946	124,947	(1)	124,946
2013 HOME Program Grant	104,483	104,483	-	104,483
2014 HOME Program Grant	125,421	41,608	74,154	115,762
2016 HOME Program Grant	102,273	-	-	-
2017 HOME Program Grant	106,846	-	-	-
2011 Consortium HOME Program Income	96,834	96,834	(1)	96,833
2015 Consortium HOME Program Income	13,969	584	13,385	13,969
2017 Consortium HOME Program Income	13,385	-	13,386	13,386
2018 Consortium HOME Program Income	13,386	-	13,386	13,386
2017 Urgent Repair Grant	50,000	-	50,000	50,000
Investment income	-	-	135	135
Total revenues	<u>4,591,156</u>	<u>3,623,813</u>	<u>394,893</u>	<u>4,018,706</u>
Expenditures:				
CDBG 2006:				
Section 108 loan payments	<u>2,139,282</u>	<u>1,560,395</u>	<u>153,933</u>	<u>1,714,328</u>
Total	<u>2,139,282</u>	<u>1,560,395</u>	<u>153,933</u>	<u>1,714,328</u>
CDBG 2012:				
Administration	70,000	70,000	-	70,000
Public service	45,831	45,831	-	45,831
Section 108 loan payments	71,427	71,427	-	71,427
Urgent Repair Program	96,963	96,963	-	96,963
Demolition	<u>69,999</u>	<u>69,999</u>	<u>-</u>	<u>69,999</u>
Total	<u>354,220</u>	<u>354,220</u>	<u>-</u>	<u>354,220</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

COMMUNITY DEVELOPMENT BLOCK GRANT SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>
CDBG 2013:				
Administration	70,575	70,575	-	70,575
Park improvements	79,609	79,609	-	79,609
Public service	43,055	43,055	-	43,055
Section 108 loan payments	68,947	68,947	-	68,947
Urgent Repair Program	60,693	60,693	-	60,693
Demolition	30,000	29,963	37	30,000
Total	<u>352,879</u>	<u>352,842</u>	<u>37</u>	<u>352,879</u>
CDBG 2014:				
Administration	65,090	65,090	-	65,090
Infrastructure improvements	103,415	29,182	-	29,182
Public service	48,000	48,000	-	48,000
Section 108 loan payments	68,947	67,433	-	67,433
Urgent Repair Program	40,000	40,000	-	40,000
Total	<u>325,452</u>	<u>249,705</u>	<u>-</u>	<u>249,705</u>
CDBG 2016:				
Administration	65,300	65,300	-	65,300
Infrastructure improvements	70,000	-	-	-
Public service	48,000	48,000	-	48,000
Section 108 loan payments	64,882	-	64,882	64,882
Urgent Repair Program	48,352	40,288	8,064	48,352
Demolition	30,000	4,813	11,486	16,299
Total	<u>326,534</u>	<u>158,401</u>	<u>84,432</u>	<u>242,833</u>
CDBG 2017:				
Administration	68,200	-	68,200	68,200
Infrastructure improvements	100,766	-	-	-
Public service	50,000	-	48,202	48,202
Section 108 loan payments	62,280	-	-	-
Urgent Repair Program	30,000	-	28,616	28,616
Demolition	30,000	-	-	-
Total	<u>341,246</u>	<u>-</u>	<u>145,018</u>	<u>145,018</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, 2017

		Actual		
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>
2011 HOME Program Grant:				
Administration	15,372	15,372	-	15,372
Construction	50,000	50,000	-	50,000
Transitional housing	136,408	124,418	-	124,418
Downpayment assistance	20,000	20,000	-	20,000
Total	<u>221,780</u>	<u>209,790</u>	<u>-</u>	<u>209,790</u>
2013 HOME Program Grant:				
Administration	5,915	5,915	-	5,915
Property purchase	18,568	-	18,568	18,568
Program rehabilitation	60,000	60,000	-	60,000
Downpayment assistance	20,000	5,000	6,432	11,432
Total	<u>104,483</u>	<u>70,915</u>	<u>25,000</u>	<u>95,915</u>
2014 HOME Program Grant:				
Administration	7,099	5,313	1,029	6,342
Program rehabilitation	118,322	94,523	16,470	110,993
Total	<u>125,421</u>	<u>99,836</u>	<u>17,499</u>	<u>117,335</u>
2015 HOME Program Income:				
Program rehabilitation	13,969	13,969	-	13,969
Total	<u>13,969</u>	<u>13,969</u>	<u>-</u>	<u>13,969</u>
2016 HOME Program Grant:				
Administration	5,789	714	(157)	557
Senior housing	96,484	-	18,485	18,485
Total	<u>102,273</u>	<u>714</u>	<u>18,328</u>	<u>19,042</u>
2017 HOME Program Income:				
Program rehabilitation	13,385	-	13,385	13,385
Total	<u>13,385</u>	<u>-</u>	<u>13,385</u>	<u>13,385</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, 2017**

	Project Authorization	Prior Years	Actual Current Year	Total To Date
2017 HOME Program Grant:				
Administration	6,047	-	199	199
Senior housing	100,799	-	-	-
Total	106,846	-	199	199
2017 Urgent Repair Grant:				
Rehabilitation	50,000	-	34,424	34,424
Total	50,000	-	34,424	34,424
2018 HOME Program Income:				
Program rehabilitation	13,386	-	1,346	1,346
Total				
Total expenditures	4,591,156	3,070,787	493,601	3,564,388
Net change in fund balance	\$ -	\$ 553,026	(98,708)	\$ 454,318
Reconciliation from Budgetary Basis to Modified Accrual Basis:				
Current year loan repayments			(40,157)	
Net change in fund balance			\$ (138,865)	

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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Other taxes and licenses:			
Vehicle license tax	\$ 190,000	\$ 198,343	\$ 8,343
Total revenues	<u>190,000</u>	<u>198,343</u>	<u>8,343</u>
Expenditures:			
Contracted services	<u>435,300</u>	<u>400,017</u>	<u>35,283</u>
Revenues over (under) expenditures	(245,300)	(201,674)	43,626
Other Financing Sources (Uses):			
Transfers in (out)	<u>245,300</u>	<u>245,300</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 43,626</u>	<u>\$ 43,626</u>

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Capital Project Funds

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

The City of Kannapolis has six Capital Project Funds.

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

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

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

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

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

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

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CITY OF KANNAPOLIS, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2017

	Irish Buffalo Creek Greenway	Oak Avenue Sidewalk	Little Texas Road Sidewalk	Glen Afton to Goodman Road Connection	Village Park Phase 3 Improvements	Fire Station Improvements	Total
Assets:							
Cash and investments	\$ -	\$ 154,751	\$ 44,618	\$ -	\$ 62,842	\$ 353,340	\$ 615,551
Due from other governments	100,913	13,786	948	-	28,387	177	144,211
Total assets	\$ 100,913	\$ 168,537	\$ 45,566	\$ -	\$ 91,229	\$ 353,517	\$ 759,762
Liabilities and Fund Balances:							
Liabilities:							
Accounts payable and accrued liabilities	\$ 33,232	\$ -	\$ 1,200	\$ -	\$ 12,567	\$ 11,359	\$ 58,358
Due to other funds	54,284	-	-	-	-	-	54,284
Total liabilities	\$ 87,516	\$ -	\$ 1,200	\$ -	\$ 12,567	\$ 11,359	\$ 112,642
Fund Balances:							
Restricted:							
Stabilization for State statute	100,913	13,786	948	-	28,387	177	144,211
Committed	-	154,751	44,366	-	78,662	342,158	619,937
Unassigned	(87,516)	-	(948)	-	(28,387)	(177)	(117,028)
Total fund balances	\$ 13,397	\$ 168,537	\$ 44,366	\$ -	\$ 78,662	\$ 342,158	\$ 647,120
Total liabilities and fund balances	\$ 100,913	\$ 168,537	\$ 45,566	\$ -	\$ 91,229	\$ 353,517	\$ 759,762

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, 2017

	Irish Buffalo Creek Greenway	Oak Avenue Sidewalk	Little Texas Road Sidewalk	Glen Afton to Goodman Road Connection	Village Park Phase 3 Improvements	Fire Station Improvements	Total
Revenues:							
Restricted intergovernmental	\$ 120,873	\$ 18,524	\$ 16,711	\$ -	\$ -	\$ -	\$ 156,108
Total revenues	<u>120,873</u>	<u>18,524</u>	<u>16,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>156,108</u>
Expenditures:							
Current:							
Contracted services	151,091	-	-	-	31,083	67,144	249,318
Operating expenses	-	768	-	-	-	-	768
Capital outlay	-	22,386	18,173	-	1,190,138	438,686	1,669,383
Total expenditures	<u>151,091</u>	<u>23,154</u>	<u>18,173</u>	<u>-</u>	<u>1,221,221</u>	<u>505,830</u>	<u>1,919,469</u>
Revenues over (under) expenditures	(30,218)	(4,630)	(1,462)	-	(1,221,221)	(505,830)	(1,763,361)
Other Financing Sources (Uses):							
Transfers in	-	100,000	-	772	1,150,000	830,000	2,080,772
Net change in fund balances	(30,218)	95,370	(1,462)	772	(71,221)	324,170	317,411
Fund Balances:							
Beginning of year - July 1	43,615	73,167	45,828	(772)	149,883	17,988	329,709
End of year - June 30	<u>\$ 13,397</u>	<u>\$ 168,537</u>	<u>\$ 44,366</u>	<u>\$ -</u>	<u>\$ 78,662</u>	<u>\$ 342,158</u>	<u>\$ 647,120</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, 2017

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Proceeds from grants	\$ 2,136,000	\$ -	\$ 120,873	\$ 120,873
Contributions	129,024	96,014	-	96,014
Total revenues	<u>2,265,024</u>	<u>96,014</u>	<u>120,873</u>	<u>216,887</u>
Expenditures:				
Capital outlay	2,341,668	-	-	-
Contract engineering	328,332	67,899	151,091	218,990
Total expenditures	<u>2,670,000</u>	<u>67,899</u>	<u>151,091</u>	<u>218,990</u>
Revenues over (under) expenditures	<u>(404,976)</u>	<u>28,115</u>	<u>(30,218)</u>	<u>(2,103)</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	389,476	-	-	-
Transfers in	15,500	15,500	-	15,500
Total other financing sources (uses)	<u>404,976</u>	<u>15,500</u>	<u>-</u>	<u>15,500</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 43,615</u>	<u>\$ (30,218)</u>	<u>\$ 13,397</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - OAK AVENUE SIDEWALK
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Proceeds from grants	\$ 880,000	\$ 67,331	\$ 18,524	\$ 85,855
Total revenues	<u>880,000</u>	<u>67,331</u>	<u>18,524</u>	<u>85,855</u>
Expenditures:				
Operating expenses	600	-	768	768
Capital outlay	<u>1,099,400</u>	<u>84,164</u>	<u>22,386</u>	<u>106,550</u>
Total expenditures	<u>1,100,000</u>	<u>84,164</u>	<u>23,154</u>	<u>107,318</u>
Revenues over (under) expenditures	(220,000)	(16,833)	(4,630)	(21,463)
Other Financing Sources (Uses):				
Transfers in	<u>220,000</u>	<u>90,000</u>	<u>100,000</u>	<u>190,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 73,167</u>	<u>\$ 95,370</u>	<u>\$ 168,537</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, 2017

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Proceeds from grants	\$ 153,000	\$ 3,191	\$ 16,711	\$ 19,902
Total revenues	153,000	3,191	16,711	19,902
Expenditures:				
Capital outlay	204,000	8,363	18,173	26,536
Total expenditures	204,000	8,363	18,173	26,536
Revenues over (under) expenditures	(51,000)	(5,172)	(1,462)	(6,634)
Other Financing Sources (Uses):				
Transfers in	51,000	51,000	-	51,000
Net change in fund balance	\$ -	\$ 45,828	\$ (1,462)	\$ 44,366

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - GLEN AFTON TO GOODMAN ROAD CONNECTION
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Proceeds from grants	\$ 332,180	\$ 332,180	\$ -	\$ 332,180
Total revenues	332,180	332,180	-	332,180
Expenditures:				
Capital outlay	372,752	372,752	-	372,752
Total expenditures	372,752	372,752	-	372,752
Revenues over (under) expenditures	(40,572)	(40,572)	-	(40,572)
Other Financing Sources (Uses):				
Transfers in	40,572	39,800	772	40,572
Net change in fund balance	\$ -	\$ (772)	\$ 772	\$ -

CITY OF KANNAPOLIS, NORTH CAROLINA

CAPITAL PROJECT FUND - VILLAGE PARK PHASE III IMPROVEMENTS

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Expenditures:				
Contracted services	\$ 128,000	\$ 60,017	\$ 31,083	\$ 91,100
Capital outlay	<u>1,522,000</u>	<u>290,100</u>	<u>1,190,138</u>	<u>1,480,238</u>
Total expenditures	<u>1,650,000</u>	<u>350,117</u>	<u>1,221,221</u>	<u>1,571,338</u>
Revenues over (under) expenditures	(1,650,000)	(350,117)	(1,221,221)	(1,571,338)
Other Financing Sources (Uses):				
Transfers in	<u>1,650,000</u>	<u>500,000</u>	<u>1,150,000</u>	<u>1,650,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 149,883</u>	<u>\$ (71,221)</u>	<u>\$ 78,662</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, 2017

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Expenditures:				
Contracted services	\$ 393,200	\$ 7,012	\$ 67,144	\$ 74,156
Capital outlay	6,806,800	-	438,686	438,686
Total expenditures	7,200,000	7,012	505,830	512,842
Revenues over (under) expenditures	(7,200,000)	(7,012)	(505,830)	(512,842)
Other Financing Sources (Uses):				
Issuance of long-term debt	6,345,000	-	-	-
Transfers in	855,000	25,000	830,000	855,000
Total other financing sources (uses)	7,200,000	25,000	830,000	855,000
Net change in fund balance	\$ -	\$ 17,988	\$ 324,170	\$ 342,158

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
Downtown Kannapolis Fund

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

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

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

Downtown Stormwater

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

Demonstration Project Parking Deck
Sports and Entertainment Venue
Downtown Streetscape Project

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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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating Revenues:			
Charges for services:			
Water and sewer charges	\$ 15,058,000	\$ 14,431,040	\$ (626,960)
Water and sewer taps	760,000	918,338	158,338
Penalties	400,000	423,124	23,124
Other	39,050	31,068	(7,982)
Total operating revenues	<u>16,257,050</u>	<u>15,803,570</u>	<u>(453,480)</u>
Non-Operating Revenues:			
Interest on investments	<u>5,000</u>	<u>10,808</u>	<u>5,808</u>
Total non-operating revenues	<u>5,000</u>	<u>10,808</u>	<u>5,808</u>
Total revenues	<u>16,262,050</u>	<u>15,814,378</u>	<u>(447,672)</u>
Expenditures:			
Administration:			
Salaries and employee benefits	603,895	562,540	41,355
Operating expenditures	<u>233,470</u>	<u>185,558</u>	<u>47,912</u>
Total	<u>837,365</u>	<u>748,098</u>	<u>89,267</u>
Distribution:			
Salaries and employee benefits	1,565,925	1,561,000	4,925
Operating expenditures	705,174	641,104	64,070
Repairs and maintenance	305,205	288,411	16,794
Capital outlay	<u>761,100</u>	<u>675,004</u>	<u>86,096</u>
Total	<u>3,337,404</u>	<u>3,165,519</u>	<u>171,885</u>
Filter Plant:			
Salaries and employee benefits	660,122	653,343	6,779
Operating expenditures	2,368,712	2,229,961	138,751
Repairs and maintenance	156,285	153,584	2,701
Capital outlay	<u>181,619</u>	<u>176,555</u>	<u>5,064</u>
Total	<u>3,366,738</u>	<u>3,213,443</u>	<u>153,295</u>
General Services	<u>1,539,416</u>	<u>1,539,416</u>	<u>-</u>
Sewage Treatment	<u>2,946,500</u>	<u>2,932,453</u>	<u>14,047</u>
Debt Service:			
Principal	2,628,387	2,385,733	242,654
Interest and fees	<u>1,621,540</u>	<u>1,184,920</u>	<u>436,620</u>
Total debt service	<u>4,249,927</u>	<u>3,570,653</u>	<u>679,274</u>
Total expenditures	<u>16,277,350</u>	<u>15,169,582</u>	<u>1,107,768</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, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues over (under) expenditures	(15,300)	644,796	660,096
Other Financing Sources (Uses):			
Transfers out	(1,364,700)	(1,364,700)	-
Issuance of debt	380,000	380,000	-
Appropriated fund balance	1,000,000	-	(1,000,000)
Total other financing sources (uses)	15,300	(984,700)	(1,000,000)
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	(339,904)	<u>\$ (339,904)</u>
Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Depreciation and amortization		(2,474,172)	
Capital outlay		851,559	
Issuance of long-term debt		(380,000)	
Payment of debt principal		2,385,733	
Change in accrued interest		21,271	
Change in other post-employment benefits		(360,573)	
Change in compensated absences		5,178	
Deferred outflows of resources for pension plan in current fiscal year		589,137	
Deferred inflows of resources for pension plan in current fiscal year		37,633	
Change in total pension liability		(48,660)	
Change in net pension liability		(656,624)	
Interest from capital projects		2,452	
Contributions from developer		1,115,755	
Change in net position		<u>\$ 748,785</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - REVENUE BONDS 2014 FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Interest income	\$ -	\$ 65,116	\$ 2,452	\$ 67,568
Total revenues	-	65,116	2,452	67,568
Expenditures:				
Capital outlay:				
Albemarle water line	11,111,545	9,870,540	510,354	10,380,894
Meter exchange project	6,138,228	6,086,758	-	6,086,758
Water intake and clear well	1,016,388	881,927	119,008	1,000,935
Irish Buffalo Creek sewer project	741,080	128,469	30,902	159,371
Debt issuance costs	132,319	89,740	7,960	97,700
Total expenditures	19,139,560	17,057,434	668,224	17,725,658
Revenues over (under) expenditures	(19,139,560)	(16,992,318)	(665,772)	(17,658,090)
Other Financing Sources (Uses):				
Transfers in	539,560	204,910	-	204,910
Issuance of long-term debt	18,600,000	18,245,000	-	18,245,000
Total other financing sources (uses)	19,139,560	18,449,910	-	18,449,910
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 1,457,592	\$ (665,772)	\$ 791,820

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - MOORESVILLE ROAD WATER MAIN FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Expenditures:				
Capital outlay	\$ 3,000,000	\$ 212,682	\$ 3,593	\$ 216,275
Total expenditures	<u>3,000,000</u>	<u>212,682</u>	<u>3,593</u>	<u>216,275</u>
Revenues over (under) expenditures	(3,000,000)	(212,682)	(3,593)	(216,275)
Other Financing Sources (Uses):				
Issuance of long-term debt	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (212,682)</u>	<u>\$ (3,593)</u>	<u>\$ (216,275)</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - DAVIDSON ROAD WATER AND

SUDBURY ROAD SEWER MAIN

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Expenditures:				
Capital outlay	\$ 5,700,000	\$ 38,301	\$ 1,830,735	\$ 1,869,036
Total expenditures	<u>5,700,000</u>	<u>38,301</u>	<u>1,830,735</u>	<u>1,869,036</u>
Revenues over (under) expenditures	(5,700,000)	(38,301)	(1,830,735)	(1,869,036)
Other Financing Sources (Uses):				
Issuance of long-term debt	<u>5,700,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (38,301)</u>	<u>\$ (1,830,735)</u>	<u>\$ (1,869,036)</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT - DOWNTOWN WATER AND SEWER INFRASTRUCTURE

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Expenditures:				
Capital outlay	\$ 8,000,000	\$ -	\$ 762,394	\$ 762,394
Total expenditures	<u>8,000,000</u>	<u>-</u>	<u>762,394</u>	<u>762,394</u>
Revenues over (under) expenditures	(8,000,000)	-	(762,394)	(762,394)
Other Financing Sources (Uses):				
Issuance of long-term debt	<u>8,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (762,394)</u>	<u>\$ (762,394)</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

STORMWATER FUND

SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services:			
Sales and services	\$ 2,340,000	\$ 2,372,661	\$ 32,661
Total revenues	<u>2,340,000</u>	<u>2,372,661</u>	<u>32,661</u>
Expenditures:			
Salaries and employee benefits	770,343	755,512	14,831
Operating expenditures	528,167	475,391	52,776
General services	241,784	241,784	-
Capital outlay	<u>117,381</u>	<u>117,380</u>	<u>1</u>
Total	<u>1,657,675</u>	<u>1,590,067</u>	<u>67,608</u>
Debt Service:			
Principal	604,205	604,205	-
Interest	<u>78,120</u>	<u>69,904</u>	<u>8,216</u>
Total	<u>682,325</u>	<u>674,109</u>	<u>8,216</u>
Total expenditures	<u>2,340,000</u>	<u>2,264,176</u>	<u>75,824</u>
Revenues over (under) expenditures	<u>-</u>	<u>108,485</u>	<u>108,485</u>
Other Financing Sources (Uses):			
Transfers in	500,000	500,000	-
Transfers out	<u>(500,000)</u>	<u>-</u>	<u>500,000</u>
Total other financing sources (uses)	<u>-</u>	<u>500,000</u>	<u>500,000</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>608,485</u>	<u>\$ 608,485</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Reconciling items:			
Depreciation and amortization		(215,030)	
Capital outlay		117,380	
Change in interest accrued		1,723	
Change in other post-employment benefits		(120,191)	
Change in compensated absences		(2,597)	
Change in deferred outflows of resources for pensions		168,082	
Change in deferred inflows of resources for pensions		(190,141)	
Payment of debt principal		<u>604,205</u>	
Total		<u>363,431</u>	
Change in net position		<u>\$ 971,916</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

STORMWATER CAPITAL PROJECT - DOWNTOWN STORMWATER
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Expenditures:				
Capital outlay	\$ 7,000,000	\$ -	\$ 271,353	\$ 271,353
Total expenditures	<u>7,000,000</u>	<u>-</u>	<u>271,353</u>	<u>271,353</u>
Revenues over (under) expenditures	(7,000,000)	-	(271,353)	(271,353)
Other Financing Sources (Uses):				
Issuance of long-term debt	<u>7,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (271,353)</u>	<u>\$ (271,353)</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

ENVIRONMENTAL SERVICES FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services:			
Sales and services	\$ 2,393,000	\$ 2,294,899	\$ (98,101)
Miscellaneous revenue	30,000	70,895	40,895
Total revenues	<u>2,423,000</u>	<u>2,365,794</u>	<u>(57,206)</u>
Expenditures:			
Operating expenditures	76,500	70,336	6,164
Contracted services	3,711,200	3,570,364	140,836
Capital outlay	<u>500,000</u>	<u>287,044</u>	<u>212,956</u>
Total expenditures	<u>4,287,700</u>	<u>3,927,744</u>	<u>359,956</u>
Revenues over (under) expenditures	(1,864,700)	(1,561,950)	302,750
Other Financing Sources (Uses):			
Transfers in	<u>1,864,700</u>	<u>1,864,700</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>302,750</u>	<u>\$ 302,750</u>
Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Reconciling items:			
Capital outlay		287,044	
Depreciation and amortization		<u>(4,784)</u>	
Total		<u>282,260</u>	
Change in net position		<u>\$ 585,010</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

DOWNTOWN KANNAPOLIS FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services:			
Sales and services	\$ 855,800	\$ 912,582	\$ 56,782
Investment earnings	-	2,933	2,933
Total revenues	<u>855,800</u>	<u>915,515</u>	<u>59,715</u>
Expenditures:			
Operating expenditures	575,513	553,192	22,321
Contracted services	520,292	432,117	88,175
Capital outlay	10,000	13,800	(3,800)
Total	<u>1,105,805</u>	<u>999,109</u>	<u>106,696</u>
Debt Service:			
Principal	734,000	734,000	-
Interest and fees	507,195	507,313	(118)
Total	<u>1,241,195</u>	<u>1,241,313</u>	<u>(118)</u>
Total expenditures	<u>2,347,000</u>	<u>2,240,422</u>	<u>106,578</u>
Revenues over (under) expenditures	<u>(1,491,200)</u>	<u>(1,324,907)</u>	<u>166,293</u>
Other Financing Sources (Uses):			
Transfers in	3,941,200	3,941,200	-
Transfers (out)	(2,450,000)	-	2,450,000
Total other financing sources (uses)	<u>1,491,200</u>	<u>3,941,200</u>	<u>2,450,000</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>2,616,293</u>	<u>\$ 2,616,293</u>
Reconciliation of Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Reconciling items:			
Capital outlay		13,800	
Depreciation and amortization		(83,574)	
Change in accrued interest		14,707	
Payment of debt principal		734,000	
Total		<u>678,933</u>	
Change in net position		<u>\$ 3,295,226</u>	

CITY OF KANNAPOLIS, NORTH CAROLINA

DOWNTOWN CAPITAL PROJECT - DEMONSTRATION PROJECT PARKING DECK
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

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

CITY OF KANNAPOLIS, NORTH CAROLINA

DOWNTOWN CAPITAL PROJECT - SPORTS AND ENTERTAINMENT VENUE
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Expenditures:				
Contracted services	\$ 3,000,000	\$ -	\$ 612,531	\$ 612,531
Capital outlay	-	-	5,300	5,300
Total expenditures	<u>3,000,000</u>	<u>-</u>	<u>617,831</u>	<u>617,831</u>
Revenues over (under) expenditures	(3,000,000)	-	(617,831)	(617,831)
Other Financing Sources (Uses):				
Issuance of long-term debt	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (617,831)</u>	<u>\$ (617,831)</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

DOWNTOWN CAPITAL PROJECT - DOWNTOWN STREETScape PROJECT
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017

		Actual		
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Expenditures:				
Capital outlay	\$ 500,000	\$ -	\$ 111,097	\$ 111,097
Total expenditures	<u>500,000</u>	<u>-</u>	<u>111,097</u>	<u>111,097</u>
Revenues over (under) expenditures	(500,000)	-	(111,097)	(111,097)
Other Financing Sources (Uses):				
Issuance of long-term debt	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (111,097)</u>	<u>\$ (111,097)</u>

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Additional Financial Data

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

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy

Analysis of Current Tax Levy - Secondary Market Disclosure

Schedule of Principal Taxpayers

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CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2017

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2016</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2017</u>
2016 - 2017	\$ -	\$ 24,787,544	\$ 24,421,144	\$ 366,400
2015 - 2016	416,901	-	258,221	158,680
2014 - 2015	159,060	-	59,984	99,076
2013 - 2014	122,872	-	27,314	95,558
2012 - 2013	86,706	-	19,030	67,676
2011 - 2012	64,587	-	10,255	54,332
2010 - 2011	58,169	-	6,518	51,651
2009 - 2010	42,777	-	6,072	36,705
2008 - 2009	23,889	-	1,536	22,353
2007 - 2008	18,354	-	1,055	17,299
2006 - 2007	15,010	-	5,248	9,762
Total	<u>\$ 1,008,325</u>	<u>\$ 24,787,544</u>	<u>\$ 24,816,377</u>	979,492
Less: Allowance for uncollectible accounts				<u>500,865</u>
Ad valorem taxes receivable - net				<u>\$ 478,627</u>
Reconcilement with Revenues:				
Ad valorem taxes - General Fund				\$ 24,859,269
Reconciling items:				
Penalties and interest				(120,959)
Discounts				18,199
Taxes written off - State statute				5,248
Miscellaneous adjustment				<u>54,620</u>
Total collections and credits				<u>\$ 24,816,377</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2017

	City-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$3,926,087,587	\$ 0.6300	\$ 24,734,352	\$22,541,735	\$2,192,617
Penalties	-		9,281	9,281	-
Total	<u>3,926,087,587</u>		<u>24,743,633</u>	<u>22,551,016</u>	<u>2,192,617</u>
Discoveries:					
Current year taxes	6,651,908	0.6300	41,907	41,890	17
Prior year taxes	20,364,578	0.6300	122,187	122,187	-
Penalties	-		27,971	27,971	-
Total	<u>27,016,486</u>		<u>192,065</u>	<u>192,048</u>	<u>17</u>
Releases:					
Property taxed at current year's rate	(23,407,636)	0.6300	(147,468)	(147,468)	-
Property taxed at prior year's rate	<u>(114,253)</u>	0.6300	<u>(686)</u>	<u>(686)</u>	<u>-</u>
Total	<u>(23,521,889)</u>		<u>(148,154)</u>	<u>(148,154)</u>	<u>-</u>
Total property valuation	<u>\$ 3,929,582,184</u>				
Net Levy			24,787,544	22,594,910	2,192,634
Less uncollected taxes at June 30, 2017			<u>366,400</u>	<u>366,400</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 24,421,144</u>	<u>\$ 22,228,510</u>	<u>\$ 2,192,634</u>
Percent Current Year Collected			<u>98.52%</u>	<u>98.38%</u>	<u>100.00%</u>

CITY OF KANNAPOLIS, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
 SECONDARY MARKET DISCLOSURES
 FOR THE YEAR ENDED JUNE 30, 2017

Assessed Valuation:

Assessment Ratio (1)	<u>100.00%</u>
Real property	\$3,318,942,258
Personal property	527,476,822
Public service companies (2)	<u>83,163,104</u>
Total assessed valuation	<u>\$ 3,929,582,184</u>
Tax Rate per \$100	<u>0.6300</u>
Levy (includes discoveries, releases, penalties, and abatements)	<u>\$ 24,787,544</u>

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF PRINCIPAL TAXPAYERS
FOR THE YEAR ENDED JUNE 30, 2017

<u>Business</u>	<u>Type of Enterprise</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Castle & Cooke NCRC	Real Estate	\$ 199,386,860	5.07%
Castle & Cooke LLC	Real Estate	89,453,072	2.28%
CK GFS HOLDING LLC	Real Estate	48,190,340	1.23%
Duke Energy Corp	Utility	40,675,308	1.04%
Trinity of Cabarrus LTD /Shoe Show	Shoe Distribution	36,898,650	0.94%
Afton Ridge Apartments LLC	Real Estate	36,382,190	0.93%
Integra Springs LLC	Real Estate	33,805,480	0.86%
Wachovia Development Corp	Warehousing	31,112,490	0.79%
KBS Legacy Partners Grand LLC	Real Estate	29,520,620	0.75%
Kannapolis Investments LLC/NC	Real Estate	<u>23,432,170</u>	<u>0.60%</u>
Total		<u>\$ 568,857,180</u>	<u>14.48%</u>

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

Statistical Section

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

NET POSITION BY COMPONENT

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(Dollars in Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets										
Restricted	\$ 112,059	\$ 111,834	\$ 112,112	\$ 103,739	\$ 104,875	\$ 105,486	\$ 110,812	\$ 115,035	\$ 110,342	\$ 115,399
Unrestricted	638	359	650	3,555	3,643	3,242	9,131	3,909	3,626	8,591
	8,821	7,108	6,242	1,424	(1,135)	640	(6,850)	(2,942)	1,750	(11,002)
Total governmental activities net position	\$ 121,518	\$ 119,301	\$ 119,004	\$ 108,718	\$ 107,383	\$ 109,368	\$ 113,093	\$ 116,003	\$ 115,718	\$ 112,988
Business-type activities										
Net investment in capital assets										
Restricted	\$ 44,953	\$ 46,667	\$ 47,302	\$ 54,488	\$ 57,456	\$ 58,647	\$ 60,310	\$ 61,843	\$ 62,887	\$ 71,696
Unrestricted	-	-	738	3,791	-	-	-	-	-	-
	7,486	6,751	8,151	3,018	6,252	4,917	6,551	6,564	9,331	5,054
Total business-type activities net position	\$ 52,439	\$ 53,418	\$ 56,191	\$ 61,297	\$ 63,708	\$ 63,564	\$ 66,861	\$ 66,304	\$ 72,218	\$ 76,750
Primary government										
Net investment in capital assets										
Restricted	\$ 157,012	\$ 158,501	\$ 159,414	\$ 158,227	\$ 162,331	\$ 164,133	\$ 171,122	\$ 176,879	\$ 173,229	\$ 187,095
Unrestricted	638	359	1,388	7,346	3,643	3,242	9,131	3,909	3,626	8,591
	16,307	13,859	14,393	4,442	5,117	5,557	(299)	3,621	11,081	(5,948)
Total primary government net position	\$ 173,957	\$ 172,719	\$ 175,195	\$ 170,015	\$ 171,091	\$ 172,932	\$ 179,954	\$ 184,410	\$ 187,936	\$ 189,738

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	\$ 5,481	\$ 5,217	\$ 6,573	\$ 2,876	\$ 8,103	\$ 7,777	\$ 9,674	\$ 5,292	\$ 744	\$ 7,325
Public safety	8,057	10,107	11,275	13,398	12,522	15,028	15,708	14,412	18,549	17,463
Public works	2,918	8,604	6,943	8,711	7,668	5,492	5,639	5,037	10,485	7,236
Community development	8,978	8,453	4,359	14,578	1,533	1,754	1,760	1,829	1,420	1,432
Parks and recreation	1,326	1,268	1,545	1,941	1,931	2,172	2,101	2,365	2,479	1,743
Interest on long-term debt	491	607	551	1,868	2,276	2,283	2,205	3,026	3,110	2,982
Total governmental activities	27,251	34,256	31,246	43,372	34,033	34,506	37,087	31,962	36,787	38,181
Business-type activities:										
Water and sewer	11,916	11,711	11,260	11,185	13,045	11,427	12,569	12,363	14,130	14,819
Stormwater	1,011	1,485	1,405	1,270	1,436	1,691	1,545	1,552	1,684	1,901
Environmental services	-	-	-	-	427	3,314	3,355	3,523	3,632	3,645
Downtown	12,927	13,196	12,665	12,455	14,908	16,432	17,469	17,437	1,630	1,561
Total business-type activities	40,178	47,452	43,911	55,827	48,941	50,938	54,556	49,400	57,863	60,107
Total primary government expenses	\$ 40,178	\$ 47,452	\$ 43,911	\$ 55,827	\$ 48,941	\$ 50,938	\$ 54,556	\$ 49,400	\$ 57,863	\$ 60,107
Program Revenues										
Governmental activities										
Charges for services:										
General government	\$ 1,669	\$ 1,157	\$ 1,183	\$ 2,310	\$ 2,422	\$ 2,118	\$ 87	\$ 62	\$ 94	\$ 118
Public safety	139	124	152	135	135	118	133	102	246	142
Public works	189	56	8	98	44	25	13	62	144	84
Community development	113	184	110	59	33	136	291	99	118	110
Parks and recreation	258	249	260	258	275	279	256	257	132	280
Interest on long-term debt	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions:										
General government	243	95	33	204	27	65	933	769	829	1,376
Public safety	135	88	28	602	29	970	791	212	-	92
Public works	23	-	-	-	-	-	-	-	-	-
Community development	1,250	200	-	-	-	-	-	104	13	68
Parks and recreation	-	8	-	-	-	-	-	-	67	-
Capital grants and contributions:										
General government	258	1,206	590	366	3	1,536	5,499	1,520	1,523	1,522
Public safety	202	18	128	176	382	299	2,722	-	-	-
Public works	1,557	1,935	1,508	1,481	1,731	1,468	1,264	1,572	1,590	1,324
Community development	1,054	1,004	345	958	445	358	506	686	-	355
Parks and recreation	426	777	32	-	-	-	-	-	457	121
Total governmental activities program revenues	7,516	7,101	4,377	6,647	5,526	7,372	12,495	5,445	5,213	5,592

Continued on next page.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 2 (Continued)

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Program Revenues (Continued):										
Business-type activities										
Charges for services:										
Water and sewer	14,003	12,050	12,146	13,135	13,627	13,661	14,573	13,708	16,315	15,803
Stormwater	1,441	1,389	1,398	1,472	1,504	1,671	1,699	1,773	2,449	2,372
Environmental services	-	-	-	35	631	1,264	1,274	1,609	1,932	2,366
Downtown									764	913
Capital grants and contributions:										
Water and sewer	4,014	609	2,084	2,775	1,137	237	1,655	1,330	1,205	1,116
Environmental services	-	-	-	-	67	3	-	-	-	-
Total business-type activities program revenues	19,458	14,048	15,628	17,417	16,966	16,836	19,201	18,420	22,665	22,570
Total primary government program revenues	\$ 26,974	\$ 21,149	\$ 20,005	\$ 24,064	\$ 22,492	\$ 24,208	\$ 31,696	\$ 23,865	\$ 27,878	\$ 28,162
Net (Expense)/Revenue										
Governmental activities	\$ (19,735)	\$ (27,154)	\$ (26,869)	\$ (36,725)	\$ (28,505)	\$ (27,132)	\$ (24,592)	\$ (26,517)	\$ (31,574)	\$ (32,589)
Business-type activities	6,531	851	2,963	4,962	2,058	401	1,732	983	1,589	644
Total primary government net (expense)/revenue	\$ (13,204)	\$ (26,303)	\$ (23,906)	\$ (31,763)	\$ (26,447)	\$ (26,731)	\$ (22,860)	\$ (25,534)	\$ (29,985)	\$ (31,945)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Ad valorem taxes	\$ 13,213	\$ 17,165	\$ 18,252	\$ 18,379	\$ 18,585	\$ 19,274	19,935	21,586	23,620	24,802
Sales tax	5,412	4,979	5,309	5,218	5,698	6,212	6,486	7,341	8,168	9,246
Other taxes and licenses	711	701	797	752	786	944	1,189	946	758	685
Franchise tax	1,576	1,724	1,779	1,830	1,825	1,840	1,906	2,476	2,749	2,727
Unrestricted intergovernmental revenues	502	209	69	228	515	186	195	209	195	211
Investment earnings	366	76	35	32	78	113	125	193	204	299
Transfers	68	83	331	-	(316)	548	(1,520)	(1,100)	(2,360)	(4,941)
Total general revenues and transfers	21,848	24,937	26,572	26,439	27,171	29,117	28,316	31,651	33,334	33,029
Business-type activities:										
Investment earnings	261	211	140	144	36	3	45	20	13	16
Transfers	(68)	(83)	(331)	-	316	(548)	1,520	1,100	2,360	4,941
Total business-type activities	\$ 193	\$ 128	\$ (191)	\$ 144	\$ 352	\$ (545)	\$ 1,565	\$ 1,120	\$ 2,373	\$ 4,957
Change in Net Position										
Governmental activities	\$ 2,113	\$ (2,217)	\$ (297)	\$ (10,286)	\$ (1,334)	\$ 1,985	\$ 3,724	\$ 5,135	\$ 1,760	\$ 440
Business-type activities	6,724	979	2,772	5,106	2,410	(144)	3,297	2,103	3,962	5,601
Total primary government	\$ 8,837	\$ (1,238)	\$ 2,475	\$ (5,180)	\$ 1,076	\$ 1,841	\$ 7,021	\$ 7,238	\$ 5,722	\$ 6,041

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 3

FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Dollars in Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund:										
Reserved	\$ 3,099	\$ 1,905	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	3,353	3,730	-	-	-	-	-	-	-	-
Non-spendable	-	-	403	453	35	50	53	65	220	264
Committed	-	-	-	-	-	-	-	-	46	146
Restricted	-	-	2,100	2,990	2,518	2,285	11,013	7,712	7,471	7,759
Unassigned	-	-	3,874	2,677	4,135	6,706	3,069	9,860	12,016	9,917
Total General Fund	\$ 6,452	\$ 5,635	\$ 6,377	\$ 6,120	\$ 6,688	\$ 9,041	\$ 14,135	\$ 17,637	\$ 19,753	\$ 18,086
NCRC Project Development										
Financing 2010 Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	21,431	11,336	5,692	-	-	-	-
Total NCRC Financing 2010 Fund	\$ -	\$ -	\$ -	\$ 21,431	\$ 11,336	\$ 5,692	\$ -	\$ -	\$ -	\$ -
Pine Street Assisted Living Facility										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2,722	\$ -	\$ -	\$ -
Unassigned	-	-	-	-	-	-	(2,724)	-	-	-
Total Pine Street Assisted Living Facility	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2)	\$ -	\$ -	\$ -
City Office/Public Safety Building										
Unassigned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,802)	\$ -	\$ -
Restricted	-	-	-	-	-	-	-	13,206	515	-
Total City Office/Public Safety Building	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,404	\$ 515	\$ -
All Other Governmental Funds										
Reserved	\$ 73	\$ 275	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved report in:										
Special revenue funds	1,496	1,597	-	-	-	-	-	-	-	-
Capital project funds	3,986	1,054	-	-	-	-	-	-	-	-
Non-spendable	-	-	-	-	-	-	-	-	187	-
Restricted	-	-	1,999	1,036	1,124	954	5,321	1,175	1,262	1,167
Committed	-	-	-	1,250	308	3,680	93	214	218	620
Unassigned	-	-	-	-	-	-	-	(185)	(285)	(182)
Assigned	-	-	-	(396)	(224)	(29)	(29)	-	-	-
Total all other governmental funds	\$ 5,555	\$ 2,926	\$ 1,999	\$ 1,890	\$ 1,208	\$ 4,605	\$ 5,385	\$ 1,204	\$ 1,382	\$ 1,605

Note:

The City implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011. Three years are presented in the format prior to the implementation of GASB 54 (fiscal years 2008 through 2010). Seven years are presented in the format after the implementation of GASB 54 (fiscal years 2011 through 2017)

CITY OF KANANPOLIS, NORTH CAROLINA

TABLE 4

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Dollars in Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues:										
Ad valorem taxes	\$13,273	\$17,589	\$17,907	\$18,235	\$18,600	\$19,032	\$ 20,243	\$ 21,728	\$ 23,809	\$ 24,859
Other taxes and licenses	6,124	5,680	6,106	5,971	6,484	7,156	7,675	8,287	8,926	9,848
Unrestricted intergovernmental revenues	2,078	1,933	1,848	2,058	2,340	2,028	2,100	2,685	2,945	3,021
Restricted intergovernmental revenues	3,874	3,676	2,322	3,635	2,129	4,247	6,784	3,976	3,570	3,508
Sales and services	1,162	1,306	1,195	912	2,101	1,767	780	594	745	744
Investment earnings	366	75	35	32	78	113	125	193	204	299
Miscellaneous	2,479	739	1,254	2,038	808	909	933	887	908	1,350
Total revenues	29,356	30,998	30,667	32,881	32,540	35,252	38,640	38,350	41,107	43,629
Expenditures:										
General Government	4,491	4,933	6,579	7,399	7,141	8,358	6,534	5,129	6,122	7,132
Public safety	10,022	11,608	10,949	11,988	11,676	13,865	13,461	15,310	15,440	15,706
Public works	6,112	6,203	5,337	6,489	5,831	3,088	3,449	4,022	4,343	4,282
Community development	711	778	731	731	1,679	1,702	1,760	1,829	1,375	1,432
Parks and recreation	1,326	1,502	1,340	1,444	4,474	1,549	1,665	1,829	1,655	2,573
Capital Outlay	10,364	7,913	3,808	13,947	10,294	3,527	4,764	21,245	11,618	2,315
Debt service:										
Principal	2,346	3,049	3,206	2,456	2,405	8,803	3,050	2,852	3,693	4,717
Interest and fees	391	626	574	1,838	1,735	2,368	2,257	2,814	3,146	2,826
Total expenditures	35,763	36,612	32,524	46,292	45,235	43,260	36,940	55,030	47,392	40,983
Excess of revenues over (under) expenditures	(6,407)	(5,614)	(1,857)	(13,411)	(12,695)	(8,008)	1,700	(16,680)	(6,285)	2,646
Other Financing Sources (Uses)										
Transfers from other funds	1,401	664	2,071	1,080	704	6,863	6,628	893	840	2,326
Transfers to other funds	(1,334)	(581)	(1,740)	(1,080)	(373)	(6,315)	(8,148)	(1,993)	(3,174)	(7,267)
Proceeds of installment financing	8,872	2,087	1,340	971	3,000	7,566	-	-	-	335
Debt service reserve	-	-	-	-	(19)	-	-	-	-	-
Capitalized interest	-	-	-	(140)	(826)	-	-	-	-	-
Payments to bondholders	-	-	-	(1,330)	-	-	-	-	-	-
Premium on long-term debt	-	-	-	789	-	-	-	2,303	-	-
Proceeds of limited obligation bonds	-	-	-	34,185	-	-	-	25,990	-	-
Total other financing sources (uses)	8,939	2,170	1,671	34,475	2,486	8,114	(1,520)	27,193	(2,334)	(4,606)
Net change in fund balances	\$ 2,532	\$ (3,444)	\$ (186)	\$ 21,064	\$ (10,209)	\$ 106	\$ 180	\$ 10,513	\$ (8,619)	\$ (1,960)
Debt service as a percentage of noncapital expenditures	10.78%	12.27%	12.68%	10.66%	9.40%	30.05%	15.55%	18.10%	20.19%	21.00%

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

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 5

ASSESSED VALUE OF TAXABLE PROPERTY

Last Ten Fiscal Years

Fiscal Year	Real Property	Personal Property	Public Service Companies ⁽²⁾	Total Assessed Value	Total Direct Tax Rate ⁽³⁾
2008 ⁽¹⁾	2,235,917,274	354,951,354	55,510,648	2,646,379,276	0.497
2009 ⁽¹⁾	3,244,822,362	246,649,354	57,180,279	3,548,651,995	0.490
2010	3,462,272,048	189,031,359	55,691,820	3,706,995,227	0.490
2011	3,486,066,202	195,285,505	56,141,913	3,737,493,620	0.490
2012 ⁽¹⁾	3,535,916,122	191,820,297	64,092,442	3,791,828,861	0.490
2013 ⁽¹⁾	3,090,633,951	207,389,228	64,386,561	3,362,409,740	0.560
2014	3,031,530,139	368,707,556	68,379,259	3,468,616,954	0.560
2015	3,094,058,468	419,316,615	70,827,286	3,584,202,369	0.600
2016 ⁽¹⁾	3,193,371,079	470,988,564	81,056,490	3,745,416,133	0.630
2017 ⁽¹⁾	3,318,942,258	527,476,822	83,163,104	3,929,582,184	0.630

Notes: ⁽¹⁾ Increases in FY 2009 and FY 2013 include Cabarrus County revaluation. Increase in FY 2008, FY 2012 and FY 2016, FY 2017 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)

	2008 ⁽¹⁾	2009 ⁽²⁾	2010	2011	2012 ⁽³⁾	2013 ⁽⁴⁾	2014	2015	2016 ⁽⁵⁾	2017 ⁽⁶⁾
City of Kannapolis:										
General fund	0.4970	0.4900	0.4900	0.4900	0.4900	0.5600	0.5600	0.6000	0.6300	0.6300
County Rates:										
Cabarrus	0.6300	0.6300	0.6300	0.6300	0.6300	0.7000	0.7000	0.7000	0.7000	0.7000
Rowan	0.5950	0.5950	0.5950	0.5950	0.6225	0.6225	0.6225	0.6625	0.6625	0.6625

Notes:

- ⁽¹⁾ Real property was revalued by Rowan County on January 1, 2007
- ⁽²⁾ Real property was revalued by Cabarrus County on January 1, 2008
- ⁽³⁾ Real property was revalued by Rowan County on January 1, 2011
- ⁽⁴⁾ Real property was revalued by Cabarrus County on January 1, 2012
- ⁽⁵⁾ Real property was revalued by Rowan County on January 1, 2015
- ⁽⁶⁾ Real property was revalued by Cabarrus County on January 1, 2016

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 7

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

	Taxpayer	Type of Business	Fiscal Year 2017			Fiscal Year 2008		
			Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
	Castle & Cooke NCRC	Real Estate	199,386,860	1	5.07%	-	-	-
	Castle & Cooke LLC	Real Estate	89,453,072	2	2.28%	54,198,309	1	2.05%
	CK GFS HOLDING LLC	Real Estate	48,190,340	3	1.23%	13,226,660	7	0.50%
	Duke Energy Corp	Utility	40,675,308	4	1.04%	24,636,389	4	0.93%
	Trinity of Cabarrus LTD /Shoe Show	Shoe Distribution	36,898,650	5	0.94%	23,226,580	5	0.88%
	AFTON RIDGE APARTMENTS LLC	Real Estate	36,382,190	6	0.93%	-	-	-
	Integra Springs LLC	Real Estate	33,805,480	7	0.86%	-	-	-
	Wachovia Development Corp	Warehousing	31,112,490	8	0.79%	-	-	-
	KBS LEGACY PARTNERS GRAND LLC	Real Estate	29,520,620	9	0.75%	-	-	-
	KANNAPOLIS INVESTMENTS LLC/NC	Real Estate	23,432,170	10	0.60%	-	-	-
	Dayton Hudson Corp. D/B/A Target	Retail	-	-	-	20,386,151	6	0.77%
	Atlantic America Properties	Real Estate	-	-	-	30,704,120	3	1.16%
	Citicorp North America	Warehousing	-	-	-	32,351,750	2	1.22%
	CK Lakepoint Corp. Center LLC	Real Estate	-	-	-	12,191,040	8	0.46%
	David Murdock	Real Estate	-	-	-	11,901,728	9	0.45%
	Concord Telephone Company	Utility	-	-	-	11,752,274	10	0.44%
	Total		\$ 568,857,180		14.48%	\$ 234,575,001		8.86%

Note: Atlantic American Properties, Inc/Club at Irish Creek and Castle & Cooke LLC are owned or controlled by David H. Murdock**Source:** Cabarrus County and Rowan County Tax Departments

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 8

PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year (Original Levy)	Discoveries	Abatements	Total Adjusted Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
					Amount	Percentage of Adjusted Levy		Amount	Percentage of Adjusted Levy
2008	13,145,903	138,268	(131,666)	13,152,505	12,849,354	97.70%	285,852	13,135,206	99.87%
2009	17,313,980	329,399	(25,459)	17,617,920	17,177,163	97.50%	418,404	17,595,567	99.87%
2010	18,211,307	171,026	(192,864)	18,189,469	17,471,125	96.05%	681,639	18,152,764	99.80%
2011	18,385,221	80,004	(72,720)	18,392,505	17,638,052	95.90%	702,802	18,340,854	99.72%
2012	18,661,612	115,408	(35,161)	18,741,859	18,053,024	96.32%	634,503	18,687,527	99.71%
2013	19,281,030	197,718	(148,628)	19,330,120	18,620,309	96.33%	642,135	19,262,444	99.65%
2014	20,012,799	87,303	(83,385)	20,016,717	19,430,246	97.07%	490,913	19,921,159	99.52%
2015	21,392,417	190,276	(47,143)	21,535,550	21,050,962	97.75%	385,512	21,436,474	99.54%
2016	23,502,258	137,451	(29,534)	23,610,175	23,193,274	98.23%	258,221	23,451,495	99.33%
2017	24,743,633	192,065	(148,154)	24,787,544	24,421,144	98.52%	-	24,421,144	98.52%

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⁾
2008	-	0.00%	-
2009	-	0.00%	-
2010	-	0.00%	-
2011	-	0.00%	-
2012	-	0.00%	-
2013	-	0.00%	-
2014	-	0.00%	-
2015	-	0.00%	-
2016	-	0.00%	-
2017	-	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.

CITY OF KANANPOLIS, NORTH CAROLINA

TABLE 10

RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Business-type Activities						Total Primary Government	Per Capita ⁽¹⁾	Percentage of Personal Income ⁽¹⁾
	Installment Obligations	U.S. Gov. Guaranteed Notes	Limited Obligation Bonds	Limited Obligation Bonds	Installment Obligations	Special Obligation Bonds	W/S Revenue Bonds	Limited Obligation Bonds					
2008	19,670,078	1,826,000	-	-	6,360,457	-	28,333,220	-	-	56,189,755	1,313	1.18%	
2009	18,861,800	1,672,000	-	-	5,495,178	-	25,954,117	-	-	51,983,095	1,179	1.03%	
2010	17,154,850	1,513,000	-	-	6,261,384	-	23,477,283	-	-	48,406,517	1,078	0.90%	
2011	14,503,541	1,349,000	34,184,500	-	6,114,144	-	21,607,221	815,500	-	78,573,906	1,835	1.47%	
2012	11,357,867	1,180,000	34,425,000	-	8,718,447	-	17,620,006	-	-	73,301,320	1,695	1.35%	
2013	11,594,133	1,006,000	33,125,000	-	9,144,385	-	16,366,902	-	-	71,236,420	1,645	1.26%	
2014	10,163,453	827,000	31,685,000	-	7,929,905	-	33,224,348	-	-	83,829,706	1,915	1.37%	
2015	9,850,171	643,000	55,320,000	2,272,933	7,022,766	-	31,325,158	-	-	106,434,028	2,399	1.69%	
2016	8,622,690	453,000	53,045,000	2,151,700	5,857,523	11,000,000	29,365,628	-	-	110,495,541	2,395	1.75%	
2017	7,751,829	250,000	49,940,000	2,030,477	5,279,889	10,266,000	27,333,327	-	-	102,851,522	2,150	*	

Notes:

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

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

* Information not yet available. Calendar year 2016 personal income not available to calculate fiscal year 2016 percentage of personal income.

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

As of June 30, 2017

(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	57,860	16.24%	9,396
Cabarrus County COPS/LOBS	262,375	16.24%	42,610
Cabarrus County Capital Leases	3,245	16.24%	527
Rowan County General Obligation Debt	26,745	4.07%	1,089
Rowan County Installment Financing	32,171	4.07%	1,309
Subtotal, overlapping debt			54,931
City direct debt			57,942
Total direct and overlapping debt			<u><u>\$112,873</u></u>

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

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

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

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 12

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

(Dollars in Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assessed Value of Property	\$ 2,646,379	\$ 3,548,651	\$ 3,706,995	\$ 3,737,493	\$ 3,791,828	\$ 3,456,237	\$ 3,568,617	\$ 3,584,202	\$ 3,728,368	\$ 3,929,582
Debt Limit, 8% of Assessed Value (Statutory Limitation)	211,710	283,892	296,560	298,999	303,346	276,499	285,489	286,736	298,269	314,367
Debt applicable to debt limitations:										
Special obligation bonds	-	-	-	-	-	-	-	-	11,000	10,266
Limited obligation bonds	-	-	-	35,000	34,425	33,125	31,685	57,593	55,197	51,970
Installment obligations	27,856	26,028	24,929	21,967	21,256	21,744	18,920	17,516	14,933	13,282
Less: Amount of bonded debt incurred for water purposes	-	-	-	-	-	-	-	-	-	-
Total net debt applicable to limitations	27,856	26,028	24,929	56,967	55,681	54,869	50,605	75,109	81,130	75,518
Legal debt margin	\$ 183,854	\$ 257,864	\$ 271,631	\$ 242,032	\$ 247,665	\$ 221,630	\$ 234,884	\$ 211,627	\$ 217,139	\$ 238,849
Total net debt applicable to the limit as a percentage of debt limit	13.16%	9.17%	8.41%	19.05%	18.36%	19.84%	17.73%	26.19%	27.20%	24.02%

Note: NC Statute GS159-55 limits the city's outstanding debt to 8% of the appraised value of property subject to taxation.

The legal debt margin is the difference between the debt limit and the city's net debt outstanding applicable to the limit, and represents the city's legal borrowing authority.

CITY OF KANANPOLIS, NORTH CAROLINA

TABLE 13

PLEDGED - REVENUE COVERAGE

Last Ten Fiscal Years

Water and Sewer Revenue Bonds							
Fiscal Year	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	
				Principal	Interest		
2008	14,807,217	8,180,463	6,626,754	2,296,854	1,424,410	3,721,264	1.78
2009	12,812,510	7,878,465	4,934,045	2,379,103	1,335,221	3,714,324	1.33
2010	12,842,521	7,495,923	5,346,598	2,476,833	1,240,468	3,717,301	1.44
2011	13,835,755	7,500,447	6,335,308	1,870,064	1,129,038	2,999,102	2.11
2012	13,662,511	9,097,365	4,565,146	1,547,514	932,191	2,479,705	1.84
2013	13,664,084	8,431,200	5,232,884	1,253,104	526,082	1,779,186	2.94
2014	14,618,245	8,933,072	5,685,173	1,387,555	864,802	2,252,357	2.52
2015	13,708,157	7,632,786	6,075,371	2,280,158	1,314,183	3,594,341	1.69
2016	16,314,943	9,090,114	7,224,829	1,959,530	1,148,822	3,108,352	2.32
2017	15,816,830	9,641,863	6,174,967	2,032,301	1,082,596	3,114,897	1.98

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

Utility service charges equal total operating revenues plus investment earning.

Principal and interest of revenue bonds only are shown here.

Coverage equals net revenues divided by total debt service requirements.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 14

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Fiscal Years

Year	Population ⁽¹⁾	Personal Income ⁽²⁾ (Dollars in Thousands)		Per Capita Personal Income ⁽²⁾		Public School Enrollment ⁽³⁾	Unemployment Rate ⁽⁴⁾	
		Cabarrus County	Rowan County	Cabarrus County	Rowan County		Cabarrus County	Rowan County
2008	42,806	5,551,258	4,029,907	34,099	29,407	5,177	5.7%	6.3%
2009	44,104	5,946,765	4,278,802	35,280	30,620	5,117	11.7%	13.0%
2010	44,891	5,869,800	4,286,389	34,083	30,444	5,203	10.3%	11.6%
2011	42,828	6,057,692	4,124,902	34,030	29,750	5,239	10.4%	11.6%
2012	43,242	6,453,148	4,111,873	35,561	29,792	5,290	9.3%	10.3%
2013	43,312	7,025,450	4,334,051	38,079	31,365	5,442	7.9%	8.8%
2014	43,782	7,301,723	4,317,017	39,000	31,210	5,554	6.0%	6.5%
2015	44,359	7,305,647	4,326,891	38,521	34,587	5,707	5.3%	6.0%
2016	46,144	7,799,648	4,779,187	39,640	34,348	5,829	5.4%	5.8%
2017	47,839	*	*	*	*	5,249	3.9%	4.3%

* Information not yet available.

- Notes:**
- (1) The 2008 population numbers were compiled by the City of Kannapolis Planning Department primarily from State and federal government sources and City permitting activity. The source for the 2009-2011 population numbers is the State of N.C. Dept. of Transportation. The 2011 population of 42,828 was determined by the 2010 census.
- The 2012 population was determined by estimates from the US Census Bureau
- The 2013 population was determined by estimates from the Planning Department in contact with the demographer for N.C. OSBM
- The 2014 population of 43,782 was determined by the 2012 census.
- The 2015 and 2016 population was estimated from the US Census Bureau
- (2) Source: State of N.C. Office of State Budget and Management
- The 2012 figures were determined from the N.C. OSBM figures released late 2011
- The 2013 figures were determined from the Bureau of Economic Analysis | US Department of Commerce
- The 2014 Personal Income and Per Capita Personal Income for Cabarrus and Rowan Counties are not available as of October 2014
- The 2015 figures were determined from the Bureau of Economic Analysis | US Department of Commerce
- (3) Kannapolis City Schools
- (4) Source: N. C. Employment Security Commission - <https://desncc.com/PMINewsRates>
- These are County figures -- separate figures for the City of Kannapolis are not available.
- 2016 unemployment rates for Cabarrus and Rowan County were determined by NC. E.S.C as of May 2016
- 2017 unemployment rates for Cabarrus and Rowan County were determined by Federal Reserve Economic Research Division for June of 2017

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 15

PRINCIPAL EMPLOYERS

Current and Ten Years Ago

	Fiscal Year 2017			Fiscal Year 2007		
	Employer	Employees	Rank	Percentage of Total Employment	Employees	Rank
				Cabarrus County and Rowan County		Cabarrus County and Rowan County
				Employment	Employment	Employment
	Kannapolis City Schools	908	1	0.56%	740	1
	Shoe Show	894	2	0.55%	600	2
	Cabarrus County Schools	455	3	0.28%	348	3
	Wayne Brothers	381	4	0.23%	-	-
	North Carolina Research Campus	285	5	0.18%	-	-
	City of Kannapolis	336	6	0.21%	334	4
	Target	229	7	0.14%	220	7
	Stewart-Haas Racing LLC	368	8	0.23%	-	-
	Cabarrus Health Alliance	225	9	0.14%	256	5
	Stanley Works	215	10	0.13%	250	6
	Food Lion	-	-	-	217	8
	Rowan Cabarrus Community College	-	-	-	155	9
	Kannapolis Health Care	-	-	-	150	10
	Total	4,296		2.64%	3,270	
						2.42%

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

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 16

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

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government	26	30	30	29	29	28	21 ⁽²⁾	31	40 ⁽³⁾	41
Public safety	150	166	168	167	165	187	197	192	196	201
Public works admin and engineering	8	6	6	6	6	7	9	9	9	9
Parks and recreation	-	-	-	-	-	-	10 ⁽²⁾	11	8	9
Streets and sign shops	11	11	11	11	9	8	11	8	12	12
Stormwater	13	13	12	13	13	13	13	13	13	16
Water - Sewer billing and collections	12	6 ⁽¹⁾	5	6	6	7	9	7	7	8
Water - Sewer distribution	27	28	27	27	26	27	28	28	29	29
Water treatment plant	10	10	10	10	10	10	10	10	11	11
Total	257	270	269	269	264	287	308	309	325	336

Source: Finance Department

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

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

⁽¹⁾ Data shows that in 2009 the City moved the meter readers from WSBC to WSD.⁽²⁾ 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.⁽³⁾ Data shows that in 2016 the City implemented a new division for General Services.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 17

OPERATING INDICATORS BY FUNCTION

Last Ten Fiscal Years

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government:										
Collection rate for city taxes	97.70%	97.50%	96.05%	95.90%	96.32%	96.33%	97.07%	97.37%	98.23%	98.52%
Applications for employment processed	792	1,924	1,521	1,851	1,408	1,554	1,467	1,367	957	939
Hiring rate	6.00%	5.30%	5.30%	3.67%	3.27%	4.40%	2.65%	2.12%	8.97%	3.30%
Parks and Recreation:										
Concerts presented by the City	7	14	15	14	12	14	19	19	19	22
Shelter reservations	456	788	973	1029	943	911	1580	956	1021	1528
Police:										
Homicide and death investigations	16	15	12	7	13	55	53	61	71	64
Assault investigations	67	45	66	66	70	34	39	38	49	42
Fire:										
Response to all in City incidents within six minutes	NA	85%	90%	90%	90%	90%	83.8%	80.7%	79.0%	85.0%
Average response time (minutes) for fire calls	4:35	NA	NA	NA	NA	3:49	4:46	4:20	4:19	3:25
Number of fire inspections for businesses	583	902	1,136	1,280	1,550	682	1,420	1,689	1,946	1,058
Storm water:										
Shoulder work and ditches cleared (miles)	15	8.50	4.50	4.00	9.00	3.47	9.75	3.9	5	1
Drainage structures (repaired & constructed)	65	65	28	31	133	121	404	16	18	2,055
Streets And Sign Shop:										
Reconstruction resurfacing (miles)	4.50	4.89	0.00	0.36	2.83	1.52	3.20	3.65	3.65	3.84
Pavement repairs (including potholes)	1,968	1,917	1,526	1,538	935	1,242	1,654	4,615	7,370	7,370
Street name signs installed or repaired	438	359	154	126	202	760	358	182	218	220
Information signs installed or repaired	268	458	332	268	466	638	1,060	1,794	1,740	1,745
Water Sewer Distribution:										
Water services installed	99	59	32	35	39	54	53	46	103	50
Sewer services installed	71	40	21	4	11	11	55	10	57	50

Continued on next page.

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 17 (CONTINUED)

OPERATING INDICATORS BY FUNCTION

Last Ten Fiscal Years

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Water Treatment Plant:										
Total water treated (per billion gallons)	1.355	1.370	1.270	1.210	1.230	1.305	1.424	1.100	1.550	1.410
Unit cost of treatment (\$/1,000 Gal)	1.758	1.753	1.670	1.610	1.670	1.358	1.461	1.510	1.490	1.490
Water Sewer Billing Collections:										
Average number of walk in customers	5,328	6,519	6,543	6,662	6,900	6,221	6,145	6,527	6,421	4,180
Water and Sewer collection percentage	99.08%	98.02%	97.00%	97.30%	98.80%	97.63%	98.76%	98.00%	97.69%	97.57%

Sources: Various County departments.**NOTES:**

(1) Data is calendar year

(2) Data is average per month

NA Data not available

CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Parks and recreation:										
Park facilities	8	8	8	8	8	9	8	8	8	8
Acreage	114	114	114	114	114	114	114	114	128	172
Picnic shelters	15	15	15	15	15	15	15	15	15	15
Softball fields	3	3	3	3	3	4	4	4	4	4
Playgrounds	5	5	5	6	6	7	7	7	7	7
Soccer fields	1	1	1	1	1	1	1	1	1	1
Fire Protection:										
Stations	4	5	5	5	5	5	5	5	5	5
Fire trucks (pumper)	9	10	10	10	10	10	9	8	8	8
Fire trucks (ladder)	1	1	2	2	2	2	2	2	2	2
Police:										
Patrol cars	60	60	66	69	65	56	57	59	60	66
Total police vehicles	93	105	106	107	102	104	103	104	109	114
Streets:										
Miles of streets	222	224	224	225	226	226	227	227	227	232
Water:										
Miles of water mains	300	311	326	325	330	329	320	324	324	335
Wastewater:										
Miles of sanitary sewers	300	315	315	325	318	317	325	316	317	325
Treatment capacity ⁽¹⁾	15	15	15	15	15	15	27	25	26	27

Sources: Various City departments.

⁽¹⁾ Data is by Million Gallons (MG)

CITY OF KANNAPOLIS, NORTH CAROLINA

TABLE 19

PROPERTY VALUES AND CONSTRUCTION
Last Ten Fiscal Years

Fiscal Year Ended June 30	New Construction			Total Value Of New Construction	Total Additions And Alterations	Total Value Of New Construction And Additions
	Commercial Construction Number of Units	Value	Residential Construction Number of Units			
2017	56	37,257,363	270	436,317,73	3,313,623	84,202,759
2016	81	57,578,745	305	45,456,760	11,296,388	114,331,893
2015	41	65,320,262	292	43,319,992	11,901,231	120,541,485
2014	54	22,521,075	298	41,005,304	11,714,672	75,241,051
2013	41	22,997,714	287	24,471,966	9,821,608	57,291,288
2012	35	13,910,550	164	14,756,882	5,278,660	33,946,092
2011	29	14,849,799	66	6,303,349	10,592,739	31,745,887
2010	31	22,466,098	368	27,553,968	5,052,198	55,072,264
2009	34	17,723,212	405	38,676,547	5,397,414	61,797,173
2008	60	72,772,109	356	42,792,510	8,622,715	124,187,334

Source: Cabarrus County Inspections Department

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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; Report On Internal Control Over Compliance; In Accordance With Uniform Guidance and the State Single Audit Implementation Act
 - Schedule of Findings, Responses, and Questioned Costs
 - Schedule of Prior Year Audit Findings
 - Schedule of Expenditures of Federal and State Awards
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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kannapolis, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Kannapolis' basic financial statements, and have issued our report thereon dated November 30, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
November 30, 2017

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

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

Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance; In Accordance With Uniform Guidance and the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major State Program

We have audited the City of Kannapolis, North Carolina's, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Kannapolis' major State programs for the year ended June 30, 2017. The City of Kannapolis' major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Kannapolis' major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of the Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, Uniform Guidance and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Kannapolis' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State program. However, our audit does not provide a legal determination of the City of Kannapolis' compliance.

Opinion on Each Major State Program

In our opinion, the City of Kannapolis complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the City of Kannapolis is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Kannapolis' internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
November 30, 2017

CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

1. Summary of Auditor's Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Non-compliance material to financial statements noted?

_____ Yes X No

State Awards

Internal control over major State programs:

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

Type of auditor's report issued on compliance for major State programs:

Unmodified

Any findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?

_____ Yes X No

Identification of major State programs:

Powell Bill

CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

2. Financial Statements Findings

None reported

3. State Award Findings and Questioned Costs

None reported

CITY OF KANNAPOLIS, NORTH CAROLINA
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

None

CITY OF KANNAPOLIS, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/ Pass-Through Grant Number	Federal (Direct and Pass-Through) Expenditures	State Expenditures	Pass-Through to Subrecipients Expenditures
U.S. Department of Housing and Urban Development:					
Office of Community Planning and Development					
Direct Program:					
CDBG Entitlement Grants Cluster					
2006 Community Development Block Grants/Entitlement Grants	14.218	B-06-MC-37-0017	\$ 153,993	\$ -	\$ -
2013 Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-37-0017	37	-	-
2015 Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-37-0017	84,432	-	-
2016 Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-37-0017	145,018	-	-
Total CDBG Entitlement Grants Cluster			383,480	-	-
Passed Through City of Concord					
2013 Home Investment Partnership Program	14.239	M-13-DC-370209	25,000	-	-
2014 Home Investment Partnership Program	14.239	M-14-DC-370209	17,499	-	-
2015 Home Investment Partnership Program	14.239	M-15-DC-370209	18,327	-	-
2016 Home Investment Partnership Program	14.239	M-15-DC-370209	199	-	-
2016 Home Investment Partnership Program - Program Income	14.239	M-15-DC-370209	13,385	-	-
Total Home Investment Partnership Program			74,410	-	-
Total U.S. Department of Housing and Urban Development			457,890	-	-
U.S. Department of Health and Human Services:					
Centers for Disease Control and Prevention:					
Passed Through National Association of County and City Health Officials:					
Non-ACA/PPHF Building Capacity of the Public Health System to Improve					
Population Health through National Nonprofit Organizations	93.424	6NU38OT000172-04-02	18,986	-	-
Total U.S. Department of Health and Human Services			18,986	-	-
U.S. Department of Transportation:					
Federal Highway Administration:					
Passed Through NC Department of Transportation:					
Highway Planning and Construction Cluster					
Congestion Mitigation and Air Quality					
Total Highway Planning and Construction Cluster	20.205	41124.3.FD1	156,108	-	-
			156,108	-	-
Total Assistance - Federal Awards			632,984	-	-
State Awards:					
N.C. Department of Transportation:					
Powell Bill			-	1,288,856	-
N.C. Housing Finance Agency					
Urgent Repair Program Grant			-	34,424	-
N.C. Department of Commerce					
Downtown Revitalization Grant			-	94,340	-
Total Assistance - State Awards			-	1,417,620	-
Total Federal and State Awards			\$ 632,984	\$ 1,417,620	\$ -

Notes to the Schedule of Federal and State Awards

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and State grant activity of the City of Kannapolis under the programs of the federal government and the State of North Carolina for the year ended June 30, 2017. The information in this SEFSA is presented in accordance with the requirements of Title 2 *US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the City of Kannapolis, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Kannapolis.

Note 2 - Summary of Significant Accounting Policies

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