

**Comprehensive Annual Financial Report
Year Ended
June 30, 2015**

**Town of Kernersville,
North Carolina**



Dawn H. Morgan, Mayor

Joe L. Pinnix Jr., Mayor Pro-Tem

Kenny Crews

Bruce Boyer

Irving Neal

Tracey H. Shifflette

Curtis L. Swisher

Town Manager

Franz Ader, PE

Finance Director

Cynthia Stevens

Accounting Operations Manager

“Prepared by the Finance Department”

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Town of Kernersville, North Carolina

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INTRODUCTORY SECTION

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Town of Kernersville, North Carolina

LIST OF PRINCIPAL OFFICIALS

Board of Aldermen

Dawn H. Morgan, Mayor

Joe L. Pinnix Jr., Mayor Pro-Tem

Kenny Crews

Bruce Boyer

Irving Neal

Tracey H. Shifflette

Town Manager

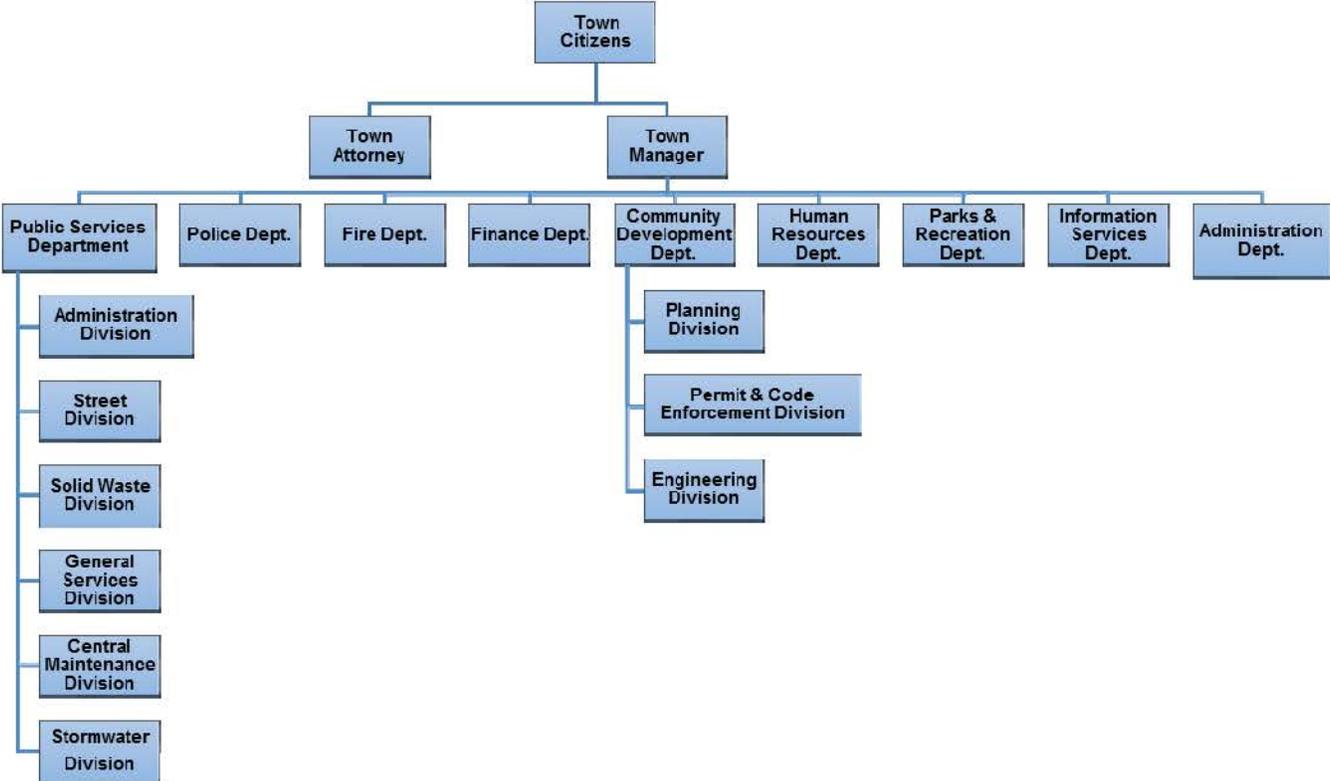
Curtis L. Swisher

Finance Director

Franz Ader, PE

Town of Kernersville, North Carolina

ORGANIZATIONAL CHART



P.O. Box 728
Kernersville, NC 27285-0728

134 East Mountain Street
Telephone (336) 996-3121
Fax (336) 996-4822

December 9, 2015

Letter of Transmittal

*Honorable Mayor
Members of the Board of Aldermen
Town of Kernersville, North Carolina*

Town Profile

The Town of Kernersville, incorporated in 1871 and uniquely centered between the cities of Greensboro, High Point and Winston-Salem, continues to grow and prosper. According to North Carolina state demographics, Kernersville's population has grown 35% between the 2000 U.S. Census and 2010, making it the 52nd fastest growing municipality in the state. The Town of Kernersville currently occupies a land area of 17.626 square miles and serves an estimated 2015 population of 24,177.

The Town is empowered by the state of North Carolina to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing body. The Town of Kernersville has operated under the council-manager form of government since 1965. Policy-making and legislative authority are vested in a Board of Aldermen (Board) consisting of the mayor and five other members. The Board is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring both the Town's manager and attorney. The Town Manager is responsible for carrying out the policies and ordinances of the Board, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The Board is elected on a non-partisan basis and members, including the Mayor, serve two-year terms. The Town of Kernersville provides a range of services, including: police and fire protection, street maintenance/construction, fire and building inspections, community development, garbage collection and recreational activities.

Local Economy and Long-Term Financial Planning

The local economy continues to experience growth during this fiscal year, which has allowed Kernersville to increase its tax base. Planning for the needs of the community and enhancing the quality of life in Kernersville are two of the Town's top goals. Kernersville continues to develop and benefit from the considerable efforts of the Town's departments and long range planning. Although residential growth in Kernersville has slowed, similar to other parts of the state, it is still one of the most desirable residential areas in the Piedmont Triad Metropolitan Region. Industrial and commercial construction and relocation has remained strong.

Major developments include:

- The United States Veterans Administration (VA) 370,000-square foot Veterans Administration Health Clinic will complete construction by the end of December 2015. Lend Lease was selected by the VA to construct and lease back to the VA the projected \$100,000,000+ health clinic, with an employment base of over 500 workers.
- Construction continues on the infrastructure for the 338-acre Triad Business Park approved by the Town in October of 2007. The major anchor in the park, FedEx Ground's 125-acre regional hub distribution facility continues their expansion to their \$80,000,000 facilities to increase their capacity by 40%. The work force estimate currently range from 750 to 1,000 workers. They recently received approval to further expand their facility. FFF Enterprises - a pharmaceutical company - opened their new 88,000-square foot facility and employ 164 workers. Columbiana Hi Tech completed construction of their 100,000-square foot manufacturing facility and has as estimated 75 workers.
- Deere-Hitachi 500,000+ square foot 2014 expansion of their manufacturing complex and corporate headquarters has allowed them to increase their work force of approximately 700 to nearly 1,000.
- The 400-acre mixed-use development "Carrollton" has been renamed "Welden" and redesigned to focus on becoming the Triad's premier traditional neighborhood design community consisting of a commercial village center and mix of residential types in a walkable and bike-able setting. Welden has begun work on their first residential phase.
- The design and construction of new residential subdivisions and expansion has gone from 0 during the recession to 7 active subdivision under design or construction.
- Over 500 new apartment units have been approved for construction.

Kernersville continues to forecast around \$500 million dollars of new industrial, commercial, and residential development as a result of these new opportunities over the next five to ten years, and continues to be a key component of the Piedmont Triad Metropolitan Region's growth.

Some of the most significant infrastructure projects that are currently under construction or have been completed during the fiscal year 2014-15 include the following:

1. The Kerners Mill Creek Greenway Park is a greenway extending from Oakhurst Drive to Hopkins Road along the Kerners Mill Creek. A feasibility study was completed in 2010 and final design was completed in 2014. Construction funding has been obtained for the first phase of the project from Oakhurst Drive to the Kilburn subdivision with STP-DA funds. Construction is expected to begin in the spring of 2016.
2. The North Cherry Street Sidewalk project extending sidewalk in the Piney Grove Road project area from the intersection of North Cherry and Piney Grove westward over the railroad tracks has been completed.

3. The NCDOT has completed construction plans for substantial improvements to South Main Street including the intersection of South Main Street and Old Winston Road. These roadway improvements should be completed in calendar year 2017.
4. The NCDOT completed the new interchange on Business 40 at Macy Grove. This interchange provides additional traffic capacity and further economic development to the Triad Business Park and Medical Business Park areas.
5. The NCDOT is constructing a new interchange on Interstate 40 (I-40) at Union Cross Road including additional lanes extending to Union Cross Road. The project will be completed in calendar year 2015. This interchange will provide additional traffic capacity and further economic development to the interchange area that includes Smith Crossing - a planned 83-acre mixed-use development.

Projects like this have a positive impact on the Town's economy which will further provide increased revenues to fund the necessary services needed to keep the Town vibrant and flourishing. New businesses will continue to locate in Kernersville due to its strategic central location in the Piedmont Triad Metropolitan Region, quality of life and financial stability. The Town will continue to enjoy growth in the residential and business arena with such major business facilities as FedEx Ground's regional hub; Deere Hitachi's manufacturing complex and corporate headquarters; VA's regional health clinic; and Novant's regional medical center.

Community Participation

Partnering with Town officials, local citizen groups are adding to the success of Kernersville. While the Town has many organizations that are standard to most communities, it has several unique associations that many cities and towns do not have. These organizations add value to the community in a way that further increases the Town's appeal to prospective businesses and residents. In addition to numerous civic, craft, recreational and newcomer organizations, the Town has: Kernersville Cares for Kids, Kernersville Little Theatre, Shepherd's Center of Kernersville (for seniors), Kernersville Community Appearance, Körner's Folly Foundation (historic in nature), Paul J. Ciener Botanical Garden, Chamber of Commerce and the Kernersville Council. These organizations add "flavor" and support to Kernersville benefiting both the citizens and the local economy. All of these efforts, and others, enable me to provide an annual financial report that reflects a stable local economy and a financially sound government for the fiscal year ended June 30, 2015.

The Report

The Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2015 reflects the fiscal policies our elected officials have established to achieve their annual priorities for program services and capital improvements. The Town's continued economic growth coupled with realistic long-term planning, management of resources and conservative use of debt are all a part of a proven formula to ensure positive operating results.

This CAFR consists of management's representations concerning the finances of the Town of Kernersville for the fiscal year ended June 30, 2015. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented herein. Management of the Town of Kernersville has established a comprehensive internal control framework that is designed to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the Town'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.

North Carolina general statutes require each unit of local government to publish, within four months after the close of the fiscal year, a complete set of financial statements presented in conformity with GAAP and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to this requirement, the Town engaged Dixon Hughes Goodman LLP, independent auditors, to perform an audit of the Town's reported financial position and results of operations contained in the government-wide, fund financial statements and notes to the financial statements. Working with the Town's financial staff, they made appropriate tests of data included in the financial statements and evaluated the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified (clean) opinion that the financial statements of the Town of Kernersville for the fiscal year ended June 30, 2015 are fairly presented in conformity with generally accepted accounting principles. The report of independent auditors is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Kernersville is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal 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 Town's internal controls and compliance with legal requirements, with emphasis on administration of federal and state grants.

The system of internal controls is designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with state statutes, GAAP, authorization of the Board, and that financial records are a reliable basis for preparation of annual financial statements. The system includes selection and training of qualified personnel, an organizational structure that provides appropriate delegation of authority and separation of responsibilities, an understanding of financial policies and procedures, and an internal audit program.

Assuring legal compliance with state statutes requires an accounting system that contains a variety of distinctly different fiscal and accounting entities. The annual budget serves as the foundation for the Town's financial planning and control. The Board is required to legally enact a final budget, by way of a Budget Ordinance or Project Ordinance, before the close of the fiscal year. The Budget Ordinance and Project Ordinances are prepared by fund and department, and are formally amended by the Board, when required. The Town Manager is authorized to transfer budget amounts between line items within a department, but changes between departments and/or funds require approval of the Board.

Conservative budgeting is management's key strategy to maintaining financial stability and it is an integral part of the Town's financial policy. The healthy fund balance of the Town's chief fund, the General Fund, attests to that.

New Pronouncements

The Governmental Accounting Standards Board (GASB) is an independent organization that establishes accounting standards for state and local governments to improve accounting conformity and excellence with public-sector financial reporting. GASB occasionally issues statements to address accounting and financial reporting concerns. GASB 68 "Accounting and Financial Reporting for Pensions" became effective July 1, 2014 and replaces the previous GASB 27 and 50 that dictated how pensions were financially reported. GASB 68 requires that a net pension liability (NPL) be recognized on the statement of net position and a pension expense be recognized in the statement of activities.

Currently, there are no new GASB pronouncements applicable to the Town or on the horizon.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada has awarded the highest form of recognition of governmental accounting and financial reporting, the Certificate of Achievement for Excellence in Financial Reporting, to the Town of Kernersville for each Annual Financial Report (Comprehensive) since 1997. We believe that this 2015 CAFR conforms to the highest reporting standards as well.

Deserving special commendation for the success of the Town's operations are skilled, talented and dedicated employees - the work force of the Town of Kernersville. Acknowledgement and appreciation are expressed for their contributions to another successful year. I also express my appreciation to the Mayor, Board of Aldermen and Town Manager for leadership, guidance, and establishment of policies for managing financial operations in a sound and progressive manner.

GAAP requires 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 the MD&A and should be read in conjunction with it. The Town of Kernersville's MD&A can be found immediately following the report of the independent auditors.

Respectfully submitted,



Franz Ader, PE, MPA
Finance Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Town of Kernersville
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members
of the Town Board of Aldermen
Town of Kernersville
Kernersville, 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 Town of Kernersville, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's 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 from material misstatement, whether due to fraud or error.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kernersville as of June 30, 2015, and the respective changes in financial position and cash flows, where appropriate thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note VIII to the financial statements, the financial statements as of and for the year ended June 30, 2014 were restated due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in 2015. Our opinion is not modified with respect to these changes.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 5 through 20, the Law Enforcement Officers' Special Separation Allowance and the Other Postemployment Benefits Schedules of Funding Progress and Schedules of Employer Contributions, on pages 79 through 82, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 83 and 84, respectively, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Kernersville, North Carolina. The introductory section, combining and individual nonmajor fund statements and schedules, other supplementary information, the statistical section, and the Schedule of Expenditures of Federal and State Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor financial statements and schedules, the other supplementary information, and the accompanying 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 nonmajor fund financial statements and schedules, other supplementary information and Schedule of Expenditures of Federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015 on our consideration of the Town of Kernersville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the 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 Town of Kernersville's internal control over financial reporting completion.

Dixon Hughes Goodman LLP

***High Point, North Carolina
December 9, 2015***

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**TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2015**

As management of the Town of Kernersville, we offer readers of the Town of Kernersville's financial statements this narrative overview and analysis of the financial activities of the Town of Kernersville for the fiscal year ended June 30, 2015. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Town of Kernersville exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$122,030,551.
- The government's total net position decreased by \$1,573,698 in the current fiscal year, primarily due to the new reporting change for the implementation of GASB Statement 68, which is discussed in further detail in the following sections.
- As of the close of the current fiscal year, the Town of Kernersville's governmental funds reported combined ending fund balances of \$12,554,805. Approximately 66.5% of this total amount, or \$8,348,194 is available for spending at the government's discretion (unassigned).
- Approximately 10.6% of the total combined governmental fund balance or \$1,335,865 is committed to transportation or capital projects. Approximately 2.0% of the total combined fund balance or \$253,144 is assigned to subsequent year's expenditures and about 20.8% or \$2,617,602 is non-spendable or restricted either by state statute or funding source.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund of \$8,348,194 represented 31.0% of total General Fund expenditures for the fiscal year.
- The Town of Kernersville's total debt of both governmental and business-type activities had a net increase of \$532,552 during the fiscal year ending June 30, 2015. The net increase was primarily the result of an increase in installment purchases for both governmental and business-type activities; specifically, the purchase of 11.469 acres of land for \$1,146,900 and the purchase of a street sweeper by the enterprise fund for \$224,081. Total debt for both the governmental and business-type activities currently stands at \$12,372,766.
- The Town of Kernersville bond rating from the Standard and Poor's Corporation is AA+ on its street construction bonds. Moody's Investor Service rated this issue at Aa2. These street construction bonds represent the only general obligation debt of the Town. At June 30, 2015, the street bond outstanding principal was \$3,660,000.
- For fiscal year 2014-15, the Town's property tax rate was \$0.5425 and supported 50.7% of governmental services to citizens and the community based on government-wide statements.

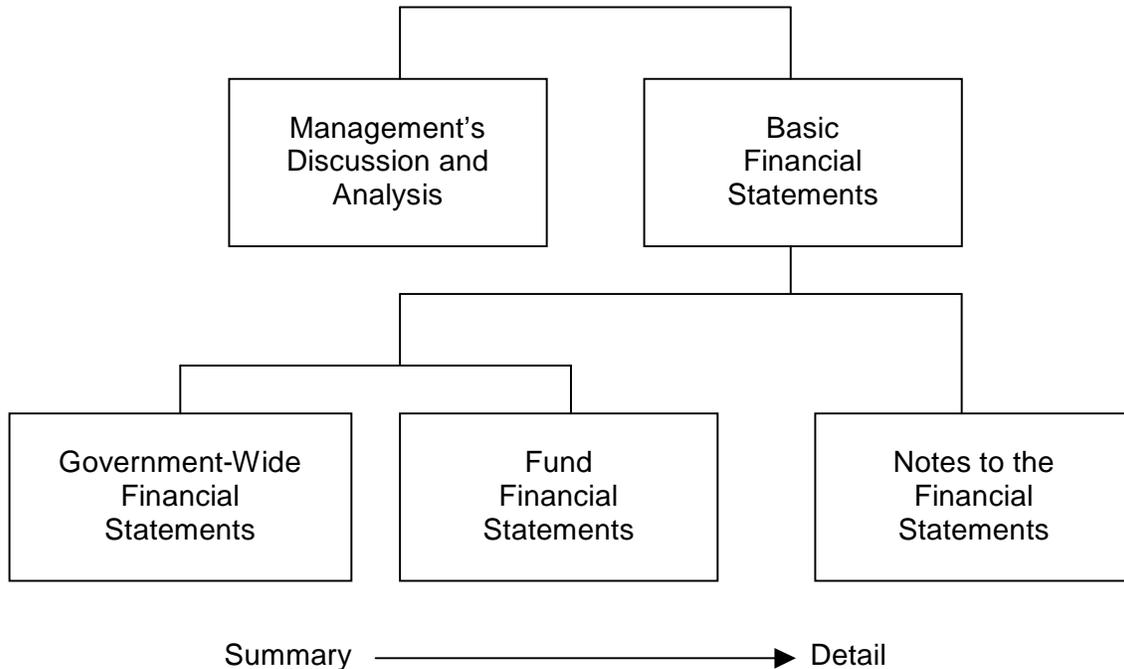
Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the Town of Kernersville's basic financial statements. The Town's basic financial statements consist of 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 Town 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 Town of Kernersville.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2015**

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-Wide Financial Statements**. They provide both the short- and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide 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 next section of the basic financial statements is the **notes**. The notes to the financial statements explain, in detail, some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes can also be found in this part of the statements.

TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2015

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements present all of the Town's governmental activities. The governmental activities include the Town's basic services such as public safety, public service, parks and recreation, and general administration. Property taxes, other taxes, intergovernmental revenues, and state and federal grant funds finance most of these activities.

The required supplemental financial data are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Exhibit 3 through 8) provide a more detailed look at the Town's most significant activities. 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 Town of Kernersville, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Kernersville 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 Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are 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 short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed, short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
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The Town of Kernersville 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 Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current-period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town 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 legal budget document. The statement shows four columns: (1) the original budget as adopted by the Board; (2) the final budget as amended by the Board; (3) the actual resources, charges to appropriations, and ending balances in the General Fund; and (4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds - The Town's Internal Service Fund is classified as a type of proprietary fund. The Town uses an internal service fund to account for its Self-Insurance operations. Because this operation benefits governmental activities, the internal service fund has been included within the Governmental Activities in the government-wide financial statements. The Stormwater Enterprise Fund receives revenues from user fees for stormwater program expenses and capital improvements/repairs.

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 are on pages 35 to 75 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Kernersville's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 79 of this report.

Interdependence with Other Entities – The Town depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
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Government-Wide Financial Analysis

**NET POSITION
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 16,156,431	\$ 14,899,615	\$ 1,140,410	\$ 1,225,678	\$ 17,296,841	\$ 16,125,293
Capital assets	127,788,517	128,151,892	821,675	213,296	128,610,192	128,365,188
Deferred outflows of resources	782,135	768,617	15,962	15,686	-	-
Total assets and deferred outflows of resources	<u>144,727,083</u>	<u>143,820,124</u>	<u>1,978,047</u>	<u>1,454,660</u>	<u>145,907,033</u>	<u>144,490,481</u>
Long-term liabilities	16,691,015	15,601,537	134,988	-	16,826,003	15,601,537
Other liabilities	4,287,374	8,037,377	112,156	105,283	4,399,530	8,142,660
Deferred inflows of resources	3,380,065	-	68,981	-	3,449,046	-
Total liabilities and deferred inflows of resources	<u>24,358,454</u>	<u>23,638,914</u>	<u>316,125</u>	<u>105,283</u>	<u>24,674,579</u>	<u>23,744,197</u>
Net position:						
Net investment in capital assets	120,138,675	120,711,678	642,737	213,296	120,781,412	120,924,974
Restricted	2,612,352	2,405,379	-	-	2,612,352	2,405,379
Unrestricted	<u>(2,382,398)</u>	<u>(2,935,846)</u>	<u>1,019,185</u>	<u>1,136,080</u>	<u>(1,363,213)</u>	<u>(1,799,766)</u>
Total net position	<u>\$ 120,368,629</u>	<u>\$ 120,181,211</u>	<u>\$ 1,661,922</u>	<u>\$ 1,349,376</u>	<u>\$ 122,030,551</u>	<u>\$ 121,530,587</u>

Over time, net position may serve as one useful indicator of a government's financial condition. The total governmental assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$122,030,551 at June 30, 2015. The largest portion of net position (99.0%) reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the Town'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 cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$2,612,352, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(1,363,213) is unrestricted. Also, the Town implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased net position by \$2,073,662. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town's management.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
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Several particular aspects of the Town's financial operations positively influenced the total unrestricted governmental net position:

- Current year property tax collections were \$13,730,922, representing an increase of \$361,122 primarily due to property tax increase of 1.5 cents per \$100 of valuation. This year's property tax collection rate was 99.35%.
- Sales and use tax revenues increased \$488,092 over last year's collections. This increase of 13.0% over last year's collections represents nominal economic growth in Kernersville.
- Penalties and interest earnings in the governmental funds increased \$43,203 from the prior year representing a 258.1% increase. The large increase is attributed to a \$44,327 increase in the collection of tax penalties.

**CHANGES IN NET POSITION
Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services:	\$ 2,442,134	\$ 2,398,460	\$ 1,011,196	\$ 1,013,509	\$ 3,453,330	\$ 3,411,969
Operating grants and contributions	1,805,122	2,324,088	-	-	1,805,122	2,324,088
Capital grants and contributions	1,349,246	3,070,242	-	-	1,349,246	3,070,242
General revenues:						
Property taxes	13,493,647	13,097,529	-	-	13,493,647	13,097,529
Other taxes	238,417	218,755	-	-	238,417	218,755
Unrestricted intergovernmental revenues:	6,606,027	6,036,044	-	-	6,606,027	6,036,044
Investment earnings, unrestricted	7,179	8,218	121	90	7,300	8,308
Gain on sale of capital assets	111,089	3,203	-	-	111,089	3,203
Miscellaneous	59,496	8,283	-	-	59,496	8,283
Total revenues	<u>26,112,357</u>	<u>27,164,822</u>	<u>1,011,317</u>	<u>1,013,599</u>	<u>27,123,674</u>	<u>28,178,421</u>
Expenses						
General government	3,629,864	3,494,897	-	-	3,629,864	3,494,897
Public safety	12,661,556	13,008,107	-	-	12,661,556	13,008,107
Public service	7,656,776	8,187,772	-	-	7,656,776	8,187,772
Culture and recreation	1,958,985	1,603,499	-	-	1,958,985	1,603,499
Stormwater	-	-	413,440	627,722	413,440	627,722
Unallocated interest expense	303,089	354,509	-	-	303,089	354,509
Total expenses	<u>26,210,270</u>	<u>26,648,784</u>	<u>413,440</u>	<u>627,722</u>	<u>26,623,710</u>	<u>27,276,506</u>
Increase (decrease) in net position before transfers	(97,913)	516,038	597,877	385,877	499,964	901,915
Transfers	285,331	135,102	(285,331)	(135,102)	-	-
Increase (decrease) in net position	<u>187,418</u>	<u>651,140</u>	<u>312,546</u>	<u>250,775</u>	<u>499,964</u>	<u>901,915</u>
Net position, July 1	122,213,399	121,562,259	1,390,850	1,140,075	123,604,249	122,702,334
Restatement	(2,032,188)	-	(41,474)	-	(2,073,662)	-
Net position, beginning, restated	<u>120,181,211</u>	<u>121,562,259</u>	<u>1,349,376</u>	<u>1,140,075</u>	<u>121,530,587</u>	<u>122,702,334</u>
Net position, June 30	<u>\$120,368,629</u>	<u>\$122,213,399</u>	<u>\$ 1,661,922</u>	<u>\$ 1,390,850</u>	<u>\$122,030,551</u>	<u>\$123,604,249</u>

Governmental Activities. The Town's net position from governmental activities increased by \$187,418 during the year. This net increase is primarily the result of program and general revenues exceeding expenses for the fiscal year ending June 30, 2015.

TOWN OF KERNERSVILLE, NORTH CAROLINA
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Business-Type Activities. The Town's net position from business-type activities increased by \$312,546 during the year. This net increase is the result of additional revenues.

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town of Kernersville. At the end of the current fiscal year, the fund balance was \$11,518,198, of which \$2,232,334 was restricted or non-spendable and \$9,285,864 was either committed, assigned or unassigned. \$2,227,084 was restricted by state statute. Committed fund balance amounted to \$684,526 and is set aside for capital projects. Assigned fund balance of \$253,144 is set aside for subsequent year's expenditures and \$8,348,194 was unassigned.

As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned General Fund – fund balance of \$8,348,194 represents 31.0% of total General Fund expenditures, while the total fund balance represents 42.7% of that same amount.

The Town had seven Non-major Special Revenue or Capital Project Funds having a total fund balance of \$1,036,607 at the fiscal year end. Of this amount, \$385,268 was restricted by state statute or other uses, while \$651,339 was committed for capital projects.

Key changes in several non-major special revenue funds are summarized in the following narrative. The Occupancy Tax Fund had an increase in fund balance of 9.64% or \$1,588 due primarily to overall increased revenues and decreased expenditures. The Emergency Telephone System Fund saw a decrease in fund balance of 59.8% or \$6,012 due primarily to the loss of all revenue sources other than investment earnings (\$4). The Contributions Fund had a decrease in fund balance of \$390 or 0.46% primarily due to an increase in expenditures associated with the Police Day Camp. The Law Enforcement Forfeiture Fund had an increase in fund balance of \$28,377 or 11.3% due primarily to a decrease in expenditures. The Federal Justice Assistance Grant Fund had a decrease in fund balance of \$599 with no remaining fund balance as of year-end.

Of the Non-major Capital Project Funds, the Public Works Facility Capital Projects Ordinance Fund exhibited a 0.02% growth, an increase of \$98 and an ending fund balance of \$555,790. There was limited activity within the fund for the year. The Kerner Mill Greenway Capital Projects Ordinance Fund had a decrease in fund balance of 7.35% or \$7,583 due primarily because reimbursement revenues were not collected to offset project expenses.

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At June 30, 2015, the total of the General Fund and all other governmental funds of the Town reported a combined fund balance of \$12,554,805 or a 9.05% increase over the previous year. The increase is primarily due to increases in local option sales and use tax and state transportation grants.

General Fund Budgetary Highlights: 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) increases in appropriations that become necessary to maintain services.

There were four budget amendments during the fiscal year. The four budget amendments resulted in a total net increase in budgeted general fund expenditures of \$1,859,870 for the fiscal year, primarily due to various increased expenditures including, but not limited to, the following: (1) carry-over operating and capital construction expenditures; (2) an HVAC system at the Town-owned Chamber of Commerce building; (3) a hook truck with attachments; (4) environmental abatement at a Town building; and workers compensation claims. The following notable Police Department amendments were made: body-worn camera project, Town Hall building security camera system; rifle replacements, and enhanced firearm readiness training. The following notable Parks and Recreation amendments were made: ballfield lighting and fencing; tree removal at Fourth of July Park and Lake Park; and irrigation expenses at Town fields.

Overall, the economy has improved. However, numerous budget-to-actual variances in both revenues and expenditures warrant discussion. The ad valorem tax revenue category consists of property taxes with real property (buildings, houses, etc.) and individual/business personal property (equipment). A positive budget variance of \$355,014 or 2.7% occurred with the current collections of ad valorem taxes as a result of the Town's conservative budget estimates.

The unrestricted intergovernmental category consists of revenue sources collected from taxes and fees which the receiving government has unrestricted use as to use or function. The utility sales or franchise tax had a positive variance of \$416,190 or 45.0% as a result of increased power consumption combined with a legislative change in how the tax is distributed. Previously, the utility tax was based upon receipts of utility sales within the town. Current legislation allowed the general state sales tax to be applied to utility sales with forty-four (44%) of the revenue distributed back to the town. The local sales and use tax revenue had a positive variance of \$262,838 or 6.6% primarily due to a combination of conservative budgeting and an improvement in economic atmosphere within the town.

The restricted revenue category consists of state, local and federal grants and other funds restricted by their use. Within the restricted category, a negative budget variance of \$348,383 or 26.7% occurred in the state transportation portion and a negative budget variance of 88.8% or \$709,280 occurred in the CCUC reimbursement portion. These negative budget variances are a result of not receiving grants and reimbursements because capital projects were not completed within the fiscal year, most notably the following: West Mountain Street Sidewalk, South Main Street Improvements, Reedy Fork Creek Greenway, Brookford Road improvements, and a sanitary sewer assessment of the entire town.

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The net budget variance in the Town's general fund revenue excluding transfers in or out was negative \$70,594 or 0.28%.

The expenditure budget to actual variances were positive in all expenditure categories: general government, public safety, public service and culture/recreational. Notable budget variances within these categories warrant explanation. Within the General Government category, all departments experienced positive budget to actual variances with the category having a positive budget variance totaling \$219,043 or 4.8%. The greatest variances occurred within the Administration Department and Finance Departments. The Administration Department had a budget variance of \$63,066 or 6.2% primarily because a loan was budgeted for a HVAC repair but the loan was deemed unnecessary and subsequently not acquired. Hence, there was no loan payment in the Administration Department. The Finance Department experienced a positive variance of \$46,992 or 5.7% primarily due to banking service expenses being lower than predicted, and overtime wage expenses that did not occur.

Within the Public Safety category, all departments experienced positive budget-to-actual variances with the total category positive budget variance being 5.4% or \$743,268. Two departments with notable budget variances were the Police and Fire Departments. The greatest positive budget variance within the category occurred in the Fire Department at a total of \$576,445 or 9.7% primarily the result of personnel-related expenses not occurring, supplies and materials not purchased, and a fire pumper truck not purchased. The Police Department had a positive budget variance of \$133,715 or 1.8% primarily the result of several items below budget: personnel-related costs, vehicle replacements, computer desktop and vehicle laptop replacements, and radio replacements.

The category with the greatest positive budget variance in the General Fund was the Public Service category at \$909,831 or 11.7%. All departments within the Public Service category experienced positive budget-to-actual variances with the largest occurring in the Engineering, Central Maintenance and Street Departments. The Engineering Department had a positive budget variance of \$491,655 or 32.3% primarily because several budgeted projects did not occur or weren't completed, including the following: West Mountain Street sidewalk, South Main Street improvements, Reedy Fork Creek Greenway, Brookford Road improvements, and a sanitary sewer assessment of the entire town. The Central Maintenance Department had a budget variance of \$199,170 or 14.0% mostly due to decreases in diesel and gasoline fuel costs. Other positive variances occurred in subcontracted repairs, parts and accessories, and personnel-related expenses. The Street Department had a positive budget variance of \$192,178 or 7.3% primarily because the following expenses were under budget: personnel expenses, street lighting, and general improvements associated with Piney Grove widening and the Salisbury Street sidewalk projects.

Within the Cultural and Recreational category, all departments had positive budget variances with the Recreation Department having the greatest variance of \$76,961 or 4.3% primarily due to expenses in the following that did not occur: personnel-related expenses associated with employment vacancies and maintenance/repair of ballfields.

The cumulative total expenditure variance for all categories and departments within the General Fund including debt service (excluding transfers in or out) was 6.8% or \$1,962,121. Including transfers and other financing sources, no fund balance was appropriated (compared to the budgeted amount of \$1,258,041) to balance General Fund revenues with General Fund expenditures.

TOWN OF KERNERSVILLE, NORTH CAROLINA
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Proprietary Funds. The Town of Kernersville's proprietary funds provide the same type of information found in the government-wide statements. The Town has two proprietary funds: the Stormwater Utility Fund and the Worker's Compensation Fund. The Stormwater Enterprise Fund receives revenues from user fees for stormwater program expenses and capital improvements/repairs. The Stormwater Enterprise Fund total net position increased 23.2% or \$312,546 to a total of \$1,661,922. The increase was primarily a result of total operating revenues exceeding total operating expenses primarily due to following: employee vacancy, maintenance/repair of storm drain, contracted services, and stormwater structure projects not undertaken or completed.

The Workers Compensation Self-Insurance Fund - the Town's only internal service fund - provides insurance for workers compensation claims for Town employees. The assets of this fund will fluctuate yearly depending upon the number and dollar amount of claims made against it. Total net position of the Self-Insurance Fund at the end of the fiscal year increased an amount of 149.1% or \$364,473 to a total of \$608,940.

Capital Asset and Debt Administration

Capital Assets. The Town of Kernersville's capital assets for its governmental activities as of June 30, 2015 totals \$127,788,517 (net of accumulated depreciation). These assets include buildings, roads, and bridges, land, machinery and equipment, park facilities, and vehicles. The Town of Kernersville's capital assets in the business-type activities or the Stormwater Fund totaled \$821,675.

For the fiscal year ended June 30, 2015, major capital asset transactions for governmental activities include the following:

- Acquisition of land, rights-of-ways and construction in progress increased in the amount of \$1,641,150
- Infrastructure saw an increase in the amount of \$1,822,559
- Equipment and heavy equipment increased in the amount of \$213,026.
- Vehicles for various departments increased in the amount of \$216,133.

For the fiscal year ended June 30, 2015, major capital asset transactions for the business-type activities (Stormwater Fund) include the following:

- Equipment and heavy equipment increased in the amount of \$591,881.
- Vehicles increased in the amount of \$56,946.

Additional information on the Town's capital assets can be found in Note 2.A.5 in the notes to the financial statements.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
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**CAPITAL ASSETS (Net of Depreciation)
Figure 4**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Capital assets not being depreciated						
Land	\$ 70,097,035	\$ 68,467,178	\$ -	\$ -	\$ 70,097,035	\$ 68,467,178
Construction in progress	<u>11,293</u>	<u>1,370,008</u>	<u>-</u>	<u>-</u>	<u>11,293</u>	<u>1,370,008</u>
Total capital assets not being depreciated	<u>70,108,328</u>	<u>69,837,186</u>	<u>-</u>	<u>-</u>	<u>70,108,328</u>	<u>69,837,186</u>
Capital assets being depreciated						
Buildings and improvements	6,556,809	6,180,005	-	-	6,556,809	6,180,005
Land improvements	1,088,091	1,193,298	-	-	1,088,091	1,193,298
Infrastructure	46,830,030	47,181,819	109,462	112,892	46,939,492	47,294,711
Equipment and heavy equipment	2,524,351	3,085,818	642,980	79,943	3,167,331	3,165,761
Vehicles	680,908	673,766	69,233	20,461	750,141	694,227
	<u>57,680,189</u>	<u>58,314,706</u>	<u>821,675</u>	<u>213,296</u>	<u>58,501,864</u>	<u>58,528,002</u>
	<u>\$ 127,788,517</u>	<u>\$ 128,151,892</u>	<u>\$ 821,675</u>	<u>\$ 213,296</u>	<u>\$ 128,610,192</u>	<u>\$ 128,365,188</u>

Long-Term Debt. As of June 30, 2015 the Town of Kernersville had total bonded debt outstanding of \$3,660,000 for street construction. This debt was issued in fiscal year 2003-04 and refunding in the current year. The last payment on the refunding debt is scheduled to occur in May 2024. This is a general obligation debt and, thus, is backed by the full faith and credit of the Town.

**OUTSTANDING DEBT
Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 3,660,000	\$ 4,000,000	\$ -	\$ -	\$ 3,660,000	\$ 4,000,000
Revolving loan payable	4,000,000	4,400,000	-	-	4,000,000	4,400,000
Installment purchases	<u>4,533,828</u>	<u>3,440,214</u>	<u>178,938</u>	<u>-</u>	<u>4,712,766</u>	<u>3,440,214</u>
	<u>\$ 12,193,828</u>	<u>\$ 11,840,214</u>	<u>\$ 178,938</u>	<u>\$ -</u>	<u>\$ 12,372,766</u>	<u>\$ 11,840,214</u>

The Town of Kernersville's total debt of both governmental and business-type activities had a net increase of \$532,552 or 4.5% for the fiscal year ended June 30, 2015. The net increase was primarily the result of more debt being issued than retired. Total debt currently stands at \$12,372,766.

Refunding bonds issued in fiscal year 2014-15 represent the only general obligation debt of the Town. As mentioned in the financial highlights section of this document, the Standard and Poor's Corporation rated the street construction debt AA+. The Moody's Investor Service rated the debt at Aa2. These ratings are a clear indication of the Town's financial condition and its consistency for managing its finances well.

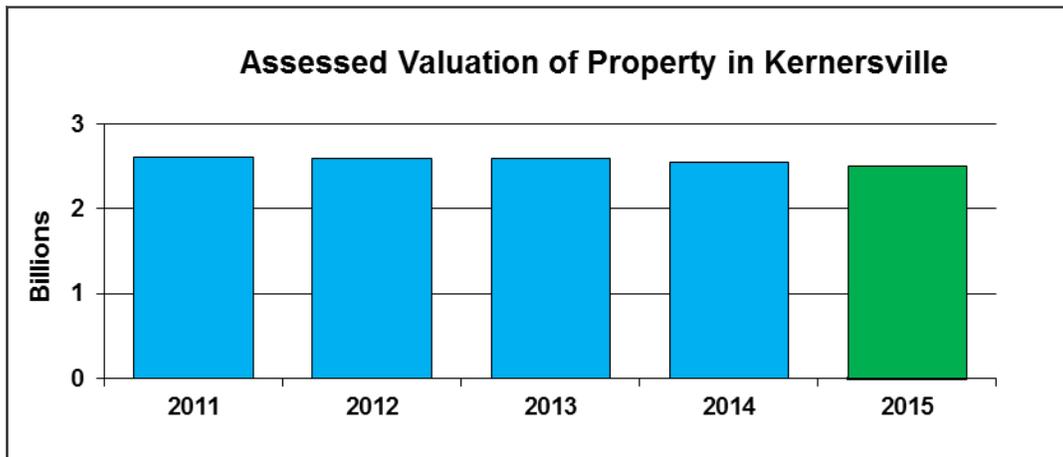
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North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within the government's boundaries or \$200,137,025. The total debt outstanding at the close of this fiscal year was \$12,372,766, resulting in a legal debt margin for the Town of Kernersville of \$187,764,259. Hence, the total bonded debt for the Town of Kernersville is 6.2% of the total legal debt margin. The Town has no authorized but unissued debt at June 30, 2015.

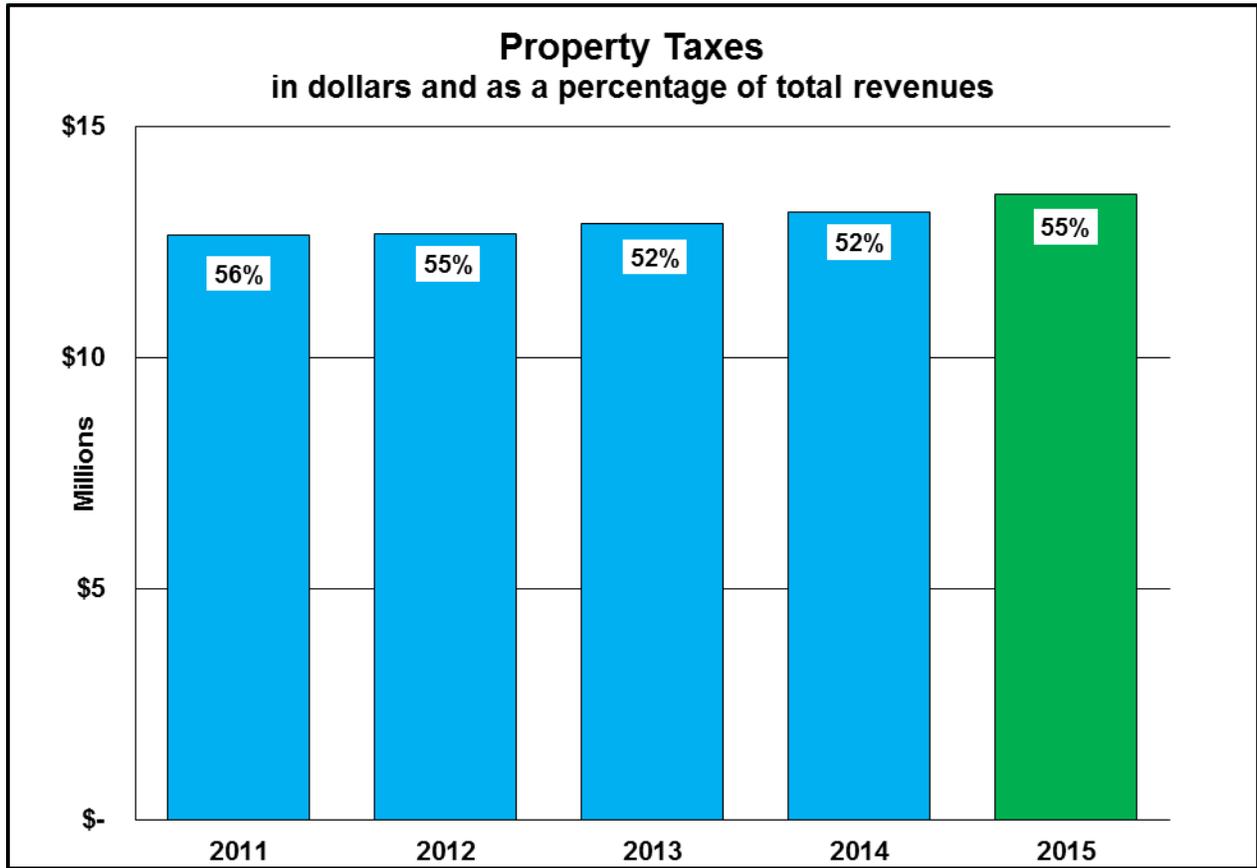
Additional information regarding the Town's long-term debt can be found on Section 2.B.7 of the notes.

Economic Factors and Next Year's Budgets and Rates

The following key economic information reflects the growth and prosperity in Kernersville:

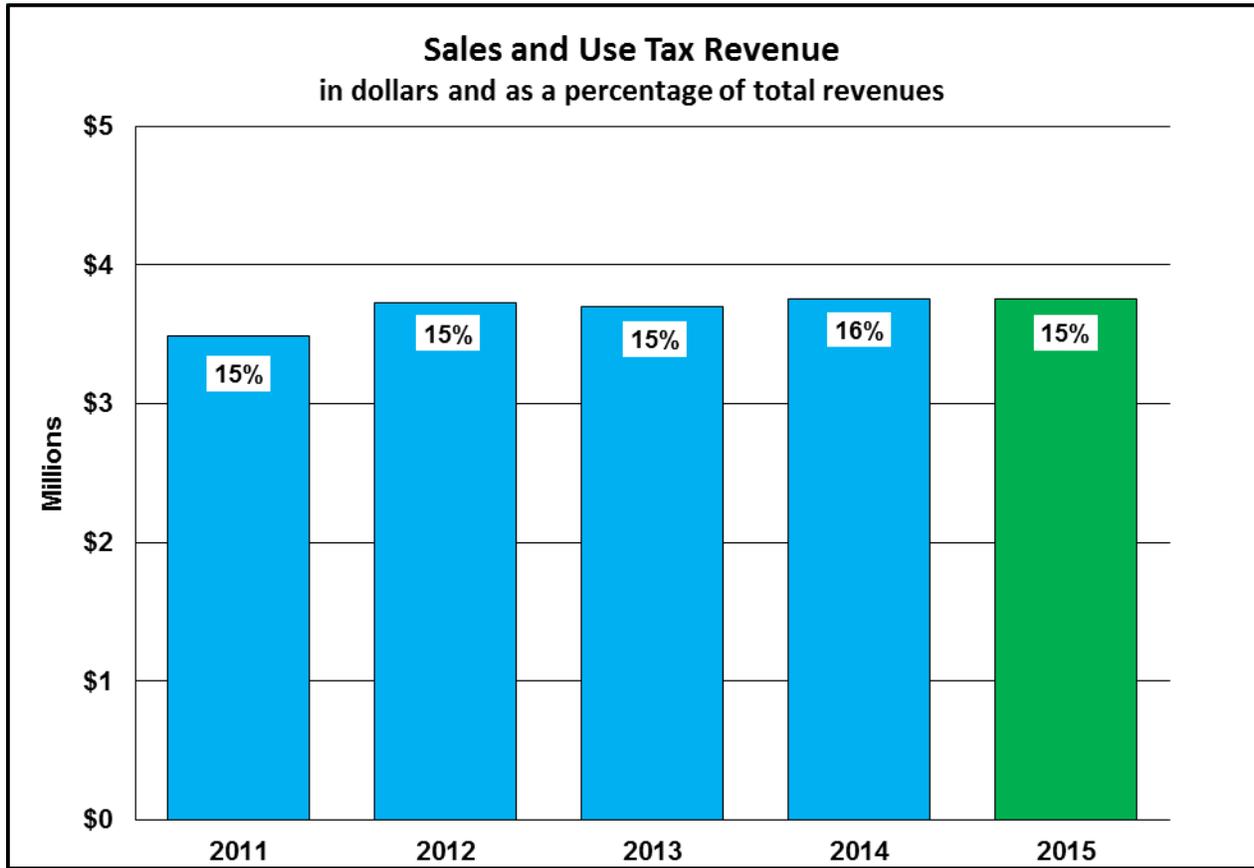


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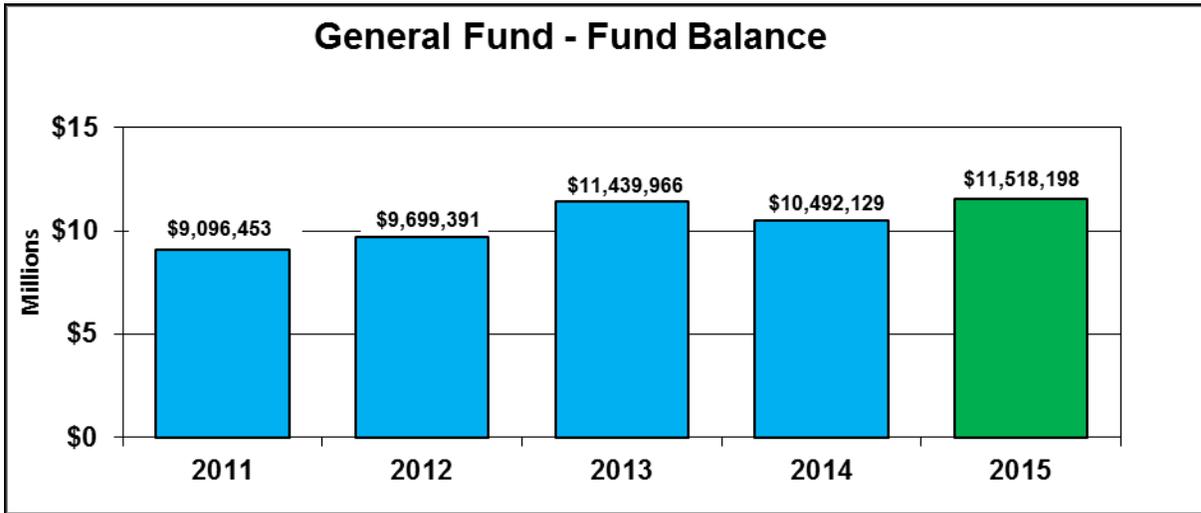
The preceding graphs show that the Town's largest source of revenue - property taxes - increased steadily from 2011 to 2015.

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The Town's second largest revenue source (sales and use taxes) increased steadily from 2005 to 2008 with a sharp drop off beginning in 2009. Sales and use remained relatively flat in 2010 and 2011 with a slight increase in 2012. Sales and use tax increases were relatively flat in 2012, 2013 and 2014. In 2014-15, local sales and use tax revenues increased thirteen percent (13.0%) or \$488,093 from the prior year. Most other revenues have remained somewhat stable.

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As indicated earlier, fund balance can be a good indicator of the General Fund's liquidity. The Town's General Fund - fund balance has remained relatively stable over the years, as can be seen from the graph above. The increase observed in fiscal year 2012-13 is primarily the result of many factors including the recognition of revenue in 2012-13 for land and building purchases which occurred in 2011-12. The fund balance decreased slightly in 2013-14 due to budgetary amendments including an unscheduled HVAC replacement at Town Hall. The General Fund - fund balance increased by 9.8% or \$1,026,069 in 2014-15 primarily due to increase revenues in utility sales tax and local option sales combined with a decrease in spending including not purchasing a fire pumper truck when a loan was received during the fiscal year.

While labor statistics are not available for the Town of Kernersville, they are available for both Forsyth County and Guilford County where Kernersville is located. As of June 30, 2015, the unemployment rate for Forsyth County was 6.0% and Guilford County was 6.3% compared to the State rate of 6.1% during the same period. The data was obtained from the Employment Security Commission of North Carolina.

Budget Highlights for the Upcoming Fiscal Year Ending June 30, 2016

Governmental Funds: The General Fund budget for fiscal year 2015-16 was approved at \$28,006,514. The collection of property taxes - the Town's largest source of revenue - is expected to increase slightly in fiscal year 2015-16 compared to the amount collected in fiscal year 2014-15 primarily due to tax valuation increases associated with real property (buildings, houses, etc.) and individual/business personal property (equipment).

The unrestricted intergovernmental revenue categories budgeted in 2015-16 are expected to be higher than the estimated collections from the prior year primarily due to an increase in the sales and use tax collections. A budgeted appropriation of \$253,144 of fund balance unassigned combined with other revenue sources are expected to fund programs and services that are currently in place and not expected to change during fiscal year 2015-16.

TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2015

General Fund services and expenditures in 2015-16 are comparable to those in the prior year. Several major capital outlay items scheduled for fiscal year 2015-16 total \$2,262,400 and include the following:

- Five Police patrol vehicles: \$160,000.
- Canine Police vehicle: \$32,000.
- Police recording and barcoding systems: \$82,000.
- Police in-car radios: \$65,000.
- Fire vehicles: \$67,000.
- SCBA equipment: \$295,000.
- Salt Storage Facility: \$50,000.
- Front Loader – Recycling Truck: \$257,000.
- Landscaping truck: \$28,000.
- Parks Wireless Camera System: \$52,000.
- Human Resource Software: \$30,000.
- Computer servers: \$24,400
- Inspector vehicle: \$23,000.
- General improvements at the Public Services facility: \$230,000.
- General improvements at the Ivey Redmon Sports Athletic facility: \$867,000.

The General Fund tax rate for the fiscal year ending June 30, 2015 is \$0.5425 per hundred dollars valuation of taxable property. No property revaluations were conducted in either Forsyth or Guilford County in 2014-15.

Other non-major governmental fund services and expenditures in 2015-16 are comparable to those in the prior year. Several major capital outlay items scheduled for fiscal year 2015-16 total \$385,000 and include the following:

- Law Enforcement Forfeiture fund rescue vehicle: \$335,000.
- State and Local Law Enforcement Forfeiture fund firearm simulator: \$50,000.

Enterprise Fund: The budget for the Stormwater Enterprise Fund was approved at \$1,731,329 for 2015-16 with no changes in the fee rate structure. Capital outlay of \$517,500 is budgeted for stormwater structure general improvements. No significant program or service changes are scheduled for 2015-16.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director, Town of Kernersville, 134 East Mountain Street, Post Office Drawer 728, Kernersville, North Carolina 27285.

BASIC FINANCIAL STATEMENTS

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TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2015

Exhibit 1

ASSETS	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and cash equivalents	\$ 11,500,964	\$ 1,113,643	\$ 12,614,607
Prepaid assets	5,250	-	5,250
Receivables:			
Taxes receivable, net	339,385	-	339,385
Accrued interest receivable on taxes	82,546	-	82,546
Accounts receivable, net	170,473	-	170,473
Due from other governments	2,066,799	-	2,066,799
Restricted cash and cash equivalents	679,411	-	679,411
Total current assets	<u>14,844,828</u>	<u>1,113,643</u>	<u>15,958,471</u>
Noncurrent assets:			
Net pension asset	1,311,603	26,767	1,338,370
Capital assets:			
Capital assets not depreciated	70,108,328	-	70,108,328
Other capital assets, net of depreciation	57,680,189	821,675	58,501,864
Total noncurrent assets	<u>129,100,120</u>	<u>848,442</u>	<u>129,948,562</u>
Total assets	<u>143,944,948</u>	<u>1,962,085</u>	<u>145,907,033</u>
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pension plan in current fiscal year	<u>782,135</u>	<u>15,962</u>	<u>798,097</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	1,053,194	63,112	1,116,306
Performance bonds	135,425	-	135,425
Claims and judgments	22,888	-	22,888
Accrued interest payable	77,106	1,683	78,789
Advanced rent payments	47,645	-	47,645
Current portion of long-term liabilities	2,951,116	47,361	2,998,477
Total current liabilities	<u>4,287,374</u>	<u>112,156</u>	<u>4,399,530</u>
Long-term liabilities:			
Due in more than one year	16,691,015	134,988	16,826,003
Total long-term liabilities	<u>16,691,015</u>	<u>134,988</u>	<u>16,826,003</u>
Total liabilities	<u>20,978,389</u>	<u>247,144</u>	<u>21,225,533</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	<u>3,380,065</u>	<u>68,981</u>	<u>3,449,046</u>
NET POSITION			
Net investment in capital assets	120,138,675	642,737	120,781,412
Restricted for:			
Stabilization by state statute	2,237,272	-	2,237,272
Tourism	7,880	-	7,880
Public safety	367,200	-	367,200
Unrestricted	(2,382,398)	1,019,185	(1,363,213)
Total net position	<u>\$ 120,368,629</u>	<u>\$ 1,661,922</u>	<u>\$ 122,030,551</u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 3,629,864	\$ 411,302	\$ -	\$ -
Public safety	12,661,556	97,262	610,554	-
Public service	7,656,776	1,550,923	1,192,201	1,349,246
Cultural and recreation	1,958,985	382,647	2,367	-
Interest on long-term obligations	303,089	-	-	-
Total governmental activities	<u>26,210,270</u>	<u>2,442,134</u>	<u>1,805,122</u>	<u>1,349,246</u>
Business-type activities:				
Stormwater	413,440	1,011,196	-	-
Total business-type activities	<u>413,440</u>	<u>1,011,196</u>	<u>-</u>	<u>-</u>
Total government	<u>\$ 26,623,710</u>	<u>\$ 3,453,330</u>	<u>\$ 1,805,122</u>	<u>\$ 1,349,246</u>

General revenues:

Taxes:

 Property taxes, levied for general purposes

 Other taxes

Unrestricted intergovernmental revenues

Unrestricted investment earnings

Gain on sale of capital assets

Miscellaneous

Total general revenues not including transfers

Net transfers

Total general revenues and transfers

Change in net position

Net position, beginning, previously reported

Restatement

Net position, beginning, restated

Net position - ending

The accompanying notes are an integral part of this statement.

Net Revenue (Expense) and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (3,218,562)	\$ -	\$ (3,218,562)
(11,953,740)	-	(11,953,740)
(3,564,406)	-	(3,564,406)
(1,573,971)	-	(1,573,971)
<u>(303,089)</u>	<u>-</u>	<u>(303,089)</u>
<u>(20,613,768)</u>	<u>-</u>	<u>(20,613,768)</u>
<u>-</u>	<u>597,756</u>	<u>597,756</u>
<u>-</u>	<u>597,756</u>	<u>597,756</u>
<u>(20,613,768)</u>	<u>597,756</u>	<u>(20,016,012)</u>
13,493,647	-	13,493,647
238,417	-	238,417
6,606,027	-	6,606,027
7,179	121	7,300
111,089	-	111,089
59,496	-	59,496
20,515,855	121	20,515,976
<u>285,331</u>	<u>(285,331)</u>	<u>-</u>
<u>20,801,186</u>	<u>(285,210)</u>	<u>20,515,976</u>
187,418	312,546	499,964
122,213,399	1,390,850	123,604,249
<u>(2,032,188)</u>	<u>(41,474)</u>	<u>(2,073,662)</u>
<u>120,181,211</u>	<u>1,349,376</u>	<u>121,530,587</u>
<u>\$ 120,368,629</u>	<u>\$ 1,661,922</u>	<u>\$ 122,030,551</u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

Exhibit 3

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>		
ASSETS			
Cash and cash equivalents	\$ 9,836,993	\$ 1,026,887	\$ 10,863,880
Restricted cash	679,411	-	679,411
Prepaid assets	5,250	-	5,250
Taxes receivable, net	339,385	-	339,385
Accounts receivable, net	170,473	-	170,473
Due from other governments	2,056,611	10,188	2,066,799
Total assets	<u>\$ 13,088,123</u>	<u>\$ 1,037,075</u>	<u>\$ 14,125,198</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 1,047,470	\$ 468	\$ 1,047,938
Performance bonds	135,425	-	135,425
Advanced rent payments	47,645	-	47,645
Total liabilities	<u>1,230,540</u>	<u>468</u>	<u>1,231,008</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax receivable	339,385	-	339,385
Total deferred inflows of resources	<u>339,385</u>	<u>-</u>	<u>339,385</u>
FUND BALANCES			
Non-spendable			
Prepaid assets	5,250	-	5,250
Restricted			
Stabilization by state statute	2,227,084	10,188	2,237,272
Tourism	-	7,880	7,880
Public safety	-	367,200	367,200
Committed			
Capital projects	684,526	651,339	1,335,865
Assigned			
Subsequent year's expenditures	253,144	-	253,144
Unassigned	8,348,194	-	8,348,194
Total fund balances	<u>11,518,198</u>	<u>1,036,607</u>	<u>\$ 12,554,805</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 13,088,123</u>	<u>\$ 1,037,075</u>	

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
BALANCE SHEET TO THE STATEMENT OF NET POSITION
For the Year Ended June 30, 2015

Exhibit 3
(Continued)

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total Fund Balance, Governmental Funds	\$	12,554,805
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		127,788,517
Net pension asset		1,311,603
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.		782,135
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are inflows of resources in the funds.		82,546
The Self-Insurance Internal Service Fund is used by management to charge the costs of workers' compensation claims to the General Fund. The assets and liabilities of the Self-Insurance Internal Service Fund are included in governmental activities in the Statement of Net Position.		608,940
Liabilities for earned but deferred revenues in fund statements.		339,385
Pension-related deferrals		(3,380,065)
Some liabilities, including long-term debt and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.		<u>(19,719,237)</u>
Net position of governmental activities	\$	<u><u>120,368,629</u></u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

Exhibit 4

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Ad valorem taxes	\$ 13,528,449	\$ -	\$ 13,528,449
Other taxes and licenses	124,675	113,742	238,417
Unrestricted intergovernmental	6,606,027	-	6,606,027
Restricted intergovernmental	1,754,425	107,828	1,862,253
Penalties and interest	60,091	145	60,236
Contributions and donations	934,121	5,920	940,041
Other general revenues	59,496	-	59,496
Functionally related revenues	2,442,134	-	2,442,134
	<u>25,509,418</u>	<u>227,635</u>	<u>25,737,053</u>
Expenditures:			
Current:			
General government	4,207,196	-	4,207,196
Public safety	12,398,515	110,981	12,509,496
Public service	6,607,747	-	6,607,747
Cultural and recreational	1,726,926	72,100	1,799,026
Debt service:			
Principal	1,774,365	39,490	1,813,855
Interest and other charges	255,836	1,238	257,074
Bond issuance costs	65,000	-	65,000
	<u>27,035,585</u>	<u>223,809</u>	<u>27,259,394</u>
Revenues over (under) expenditures	<u>(1,526,167)</u>	<u>3,826</u>	<u>(1,522,341)</u>
Other financing sources (uses):			
Transfers from other funds	686,309	59,392	745,701
Transfers to other funds	(412,631)	(47,739)	(460,370)
Refunding bonds issued	4,065,000	-	4,065,000
Debt service - principal	(4,000,000)	-	(4,000,000)
Installment purchase obligations issued	2,102,469	-	2,102,469
Sale of capital assets	111,089	-	111,089
	<u>2,552,236</u>	<u>11,653</u>	<u>2,563,889</u>
Net change in fund balances	1,026,069	15,479	1,041,548
Fund balances, beginning	<u>10,492,129</u>	<u>1,021,128</u>	<u>11,513,257</u>
Fund balances, ending	<u>\$ 11,518,198</u>	<u>\$ 1,036,607</u>	<u>\$ 12,554,805</u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Exhibit 4
(Continued)

Total net change in fund balances - total governmental funds	\$ 1,041,548
 Amounts reported for governmental activities in the Statement of Activities are different because:	
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. This is the amount by which depreciation (\$3,495,417) exceeded capital outlays (\$2,172,524) in the current period.	(1,322,893)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	782,135
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Amount of donated assets	959,518
Change in unavailable revenue, property tax receivable	(83,420)
Change in unavailable revenue, due from other governments	(607,444)
Change in accrued interest receivable on property taxes	(4,460)
The issuance (\$6,167,469) of long-term debt provides current financial resources to governmental funds, while the repayment (\$5,813,855) of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(353,614)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in compensated absences	170,346
Change in net pension obligation	(80,927)
Change in net other postemployment benefit obligation	(660,555)
Change in accrued interest payable	18,985
Pension expense	(36,274)
Change in net position of internal service funds determined to be governmental-type.	<u>364,473</u>
Total changes in net position of governmental activities	<u><u>\$ 187,418</u></u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2015

Exhibit 5

	Budgeted Amounts		Actual Amounts	Variance with Final
	Original	Final		Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 13,252,383	\$ 13,252,383	\$ 13,528,449	\$ 276,066
Other taxes and licenses	152,100	152,100	124,675	(27,425)
Unrestricted intergovernmental	5,860,013	5,860,013	6,606,027	746,014
Restricted intergovernmental	2,153,822	2,826,342	1,754,425	(1,071,917)
Penalties and interest	32,217	32,217	59,945	27,728
Contributions and donations	894,330	895,780	934,121	38,341
Other general revenues	30,000	30,000	59,496	29,496
Functionally related revenues	2,308,804	2,531,031	2,442,134	(88,897)
Total revenues	<u>24,683,669</u>	<u>25,579,866</u>	<u>25,509,272</u>	<u>(70,594)</u>
Expenditures:				
Current:				
General government	4,257,367	4,571,863	4,352,820	219,043
Public safety	13,208,430	13,752,820	13,009,552	743,268
Public service	7,299,056	7,762,011	6,852,180	909,831
Cultural and recreational	1,301,103	1,852,148	1,762,169	89,979
Debt service	1,071,880	1,058,864	1,058,864	-
Total expenditures	<u>27,137,836</u>	<u>28,997,706</u>	<u>27,035,585</u>	<u>1,962,121</u>
Revenues under expenditures	<u>(2,454,167)</u>	<u>(3,417,840)</u>	<u>(1,526,313)</u>	<u>1,891,527</u>
Other financing sources (uses)				
Transfers from other funds	784,970	686,120	686,309	189
Transfers to other funds	(216,579)	(275,971)	(275,971)	-
Refunding bonds issued	-	4,065,000	4,065,000	-
Debt service - principal	-	(4,000,000)	(4,000,000)	-
Installment purchase obligations issued	1,584,650	1,584,650	2,102,469	517,819
Sale of capital assets	75,000	100,000	111,089	11,089
Total other financing sources	<u>2,228,041</u>	<u>2,159,799</u>	<u>2,688,896</u>	<u>529,097</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>(226,126)</u>	<u>(1,258,041)</u>	<u>1,162,583</u>	<u>2,420,624</u>
Fund balance appropriated	<u>226,126</u>	<u>1,258,041</u>	<u>-</u>	<u>(1,258,041)</u>
Revenues, other financing sources and appropriated fund balance over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>1,162,583</u>	<u>\$ 1,162,583</u>
Fund balance, beginning			<u>9,671,089</u>	
Fund balance, ending			10,833,672	
A legally budgeted capital reserve fund is consolidated into the General Fund for reporting purposes:				
Fund balance, beginning			821,040	
Investment earnings			146	
Net transfers to other funds			<u>(136,660)</u>	
Fund balance, ending (Exhibit 4)			<u>\$ 11,518,198</u>	

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
June 30, 2015

Exhibit 6

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,113,643	\$ 637,084
Total current assets	<u>1,113,643</u>	<u>637,084</u>
Noncurrent assets:		
Net pension asset	26,767	-
Capital assets, net of depreciation	<u>821,675</u>	<u>-</u>
Total noncurrent assets	<u>848,442</u>	<u>-</u>
Total assets	<u>1,962,085</u>	<u>637,084</u>
DEFERRED OUTFLOWS OF RESOURCES		
Contributions to pension plan in current fiscal year	<u>15,962</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	63,112	5,256
Claims and judgments	-	22,888
Accrued interest payable	1,683	-
Current portion of long-term liabilities	<u>47,361</u>	<u>-</u>
Total current liabilities	<u>112,156</u>	<u>28,144</u>
Noncurrent liabilities:		
Noncurrent portion of long-term debt	<u>134,988</u>	<u>-</u>
Total noncurrent liabilities	<u>134,988</u>	<u>-</u>
Total liabilities	<u>247,144</u>	<u>28,144</u>
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	<u>68,981</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	642,737	-
Unrestricted	<u>1,019,185</u>	<u>608,940</u>
Total net position	<u>\$ 1,661,922</u>	<u>\$ 608,940</u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

Exhibit 7

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
OPERATING REVENUES		
Charges for services	\$ 1,011,196	\$ 610,723
TOTAL OPERATING REVENUES	<u>1,011,196</u>	<u>610,723</u>
OPERATING EXPENSES		
Personnel services	154,470	-
Depreciation	40,448	-
Other current charges	215,920	-
Claims incurred	-	178,675
Stop-loss coverage	-	60,096
Administration	-	7,500
TOTAL OPERATING EXPENSES	<u>410,838</u>	<u>246,271</u>
OPERATING INCOME	600,358	364,452
NON OPERATING REVENUES (EXPENSES)		
Investment earnings	121	21
Interest and other charges	(2,602)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(2,481)</u>	<u>21</u>
INCOME BEFORE TRANSFERS	597,877	364,473
TRANSFERS		
Transfers from other funds	216,579	-
Transfers to other funds	(501,910)	-
CHANGE IN NET POSITION	312,546	364,473
TOTAL NET POSITION, previously reported	1,390,850	244,467
RESTATEMENT	<u>(41,474)</u>	<u>-</u>
TOTAL NET POSITION, restated	<u>1,349,376</u>	<u>244,467</u>
TOTAL NET POSITION, ending	<u>\$ 1,661,922</u>	<u>\$ 608,940</u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

Exhibit 8

	Enterprise Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,011,196	\$ -
Cash paid for goods and services	(182,226)	(60,096)
Cash paid to or on behalf of employees for services	(184,987)	-
Receipts from other funds	-	610,723
Payment of claims	-	(412,451)
Payment of fee to administrator	-	(7,500)
NET CASH PROVIDED BY OPERATING ACTIVITIES	643,983	130,676
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in from other funds	216,579	-
Transfers out to other funds	(501,910)	-
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(285,331)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of installment debt	224,081	-
Acquisition and construction of capital assets	(648,827)	-
Principal paid on installment debt	(45,143)	-
Interest paid on installment debt	(919)	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(470,808)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	121	21
NET CASH PROVIDED BY INVESTING ACTIVITIES	121	21
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(112,035)	130,697
CASH AND CASH EQUIVALENTS, BEGINNING	1,225,678	506,387
CASH AND CASH EQUIVALENTS, ENDING	\$ 1,113,643	\$ 637,084

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

Exhibit 8
(Continued)

	Enterprise Fund	Internal Service Fund
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 600,358	\$ 364,452
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	40,448	-
Pension expense	740	-
Change in assets, deferred outflows of resources, and liabilities:		
Increase (decrease) in account payable and accrued liabilities	33,694	(5,982)
Decrease in claims and judgments	-	(227,794)
Decrease in accrued vacation pay	(15,295)	-
Increase in deferred outflows of resources for pensions	(15,962)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 643,983	\$ 130,676

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note I. Summary of Significant Accounting Policies

The accounting policies of the Town of Kernersville 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 Town of Kernersville (the "Town") is a municipal corporation which is governed by an elected mayor and a five-member Board of Aldermen. As required by generally accepted accounting principles, these financial statements present all funds, agencies, boards, commissions and authorities which are controlled by or are financially dependent upon the Town.

B. Basis of Presentation

Government-Wide Statements: The statement of net position and the statement of activities display information about the financial activities of the overall government. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. These statements distinguish between the *governmental* and *business-type activities* of the Town. 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 each function of the Town'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 are presented as general revenues. The effects of interfund activity have been eliminated from the government-wide financial statements.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category - *governmental* and *proprietary* - are presented. The emphasis of fund financial statements is on major governmental funds and enterprise funds, each displayed in a separate column. All remaining governmental 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. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note I. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The Town reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, state and federal grants, and various other taxes and licenses. The primary expenditures are for public safety, streets and maintenance, sanitation and general government services. Additionally, the Town has legally adopted a Capital Reserve Fund. Under GASB 54 guidance, the Capital Reserve Fund is consolidated in the General Fund. The budgetary comparison for the Capital Reserve Fund has been included in the supplementary information. The Capital Reserve Fund is used to account for resources to be used for future major capital purchases or projects.

The Town reports the following major enterprise fund:

Stormwater Fund - The purpose of the Stormwater Enterprise Fund is to finance the operations of the Stormwater Division, which was created in response to state and federal mandates, as well as a desire of the citizenry to ensure that the Town remains a quality community, especially in regard to environmental stewardship.

The Town reports the following nonmajor governmental funds:

Special Revenue Funds - The Town reports five special revenue funds. The Occupancy Tax Fund accounts for the revenue generated by the tax charged on hotel and motel rooms to be used to promote travel and tourism, and tourism-related expenditures; the Emergency Telephone System Fund accounts for 911 system subscriber fees and levies; the Contributions Fund accounts for donations used to support drug education programs; the Law Enforcement Forfeitures Fund accounts for restricted proceeds resulting from the sale of properties seized in criminal investigations; and the Federal Justice Assistance Grant Fund accounts for restricted proceeds and uses of federal justice assistance grants.

Capital Project Funds - The Town reports two nonmajor Capital Project funds. The Public Works Facility Capital Projects Ordinance Fund accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the Public Works Facility. The Kerner Mill Greenway Capital Projects Ordinance Fund accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the Kerner Mill Greenway.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note I. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Additionally, the Town reports the following nonmajor proprietary funds:

Internal Service Fund - The Internal Service fund accounts for operations that provide services to other departments or agencies of the Town, or to other governments, on a cost-reimbursement basis. The Town has one Internal Service Fund. The Self-Insurance Fund accounts for workers' compensation insurance provided for the Town's employees.

C. Measurement Focus and Basis of Accounting

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

Government-Wide and Proprietary Fund Financial Statements: The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and 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. Nonexchange transactions, in which the Town 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.

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 installment purchase agreements are reported as other financing sources.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The Town considers all revenues available if they are collected within 90 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 the utilities franchise tax, collected and held by the State at year end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied at the county level 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.

Grant revenues which are unearned at year end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net positions available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Special Revenue Funds, and the Enterprise Fund. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the Capital Project Funds.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note I. Summary of Significant Accounting Policies (Continued)

D. Budgetary Data (Continued)

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for multi-year funds. The Town Manager is authorized to make budget amendments to all departments and line items within the same fund, and is required to have such amendments entered into the minutes of the next regular meeting of the Board of Aldermen. During the year, amendments to the original budget were necessary, the effects of which were not material.

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

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by state law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town 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 Town 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 Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Town 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.

3. Restricted Assets

Performance bonds in the amount of \$135,425 are classified as restricted cash on the balance sheet. The Town requires developers/contractors to pay a performance bond to guarantee successful performance on certain construction projects. Once the Town has ensured that the work has been satisfactorily completed, the performance bonds are released. In addition, there is \$543,986 of unexpended debt proceeds that are restricted to the purpose for which the debt was issued.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note I. Summary of Significant Accounting Policies (Continued)

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

4. Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. These taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. The taxes levied are based on the assessed values as of January 1, 2014. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Prepaid Assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets in both government-wide and fund financial statements and expensed as the assets are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain amount and an estimated useful life in excess of three years. Minimum capitalization costs are as follows: buildings and improvements - \$20,000; infrastructure - \$100,000; and furniture, equipment and vehicles - \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 consist of road network assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note I. Summary of Significant Accounting Policies (Continued)

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

7. Capital Assets (Continued)

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

Asset Class	Estimated Useful Lives
Buildings and improvements	50 years
Land improvements	25 years
Infrastructure	40 years
Furniture, equipment, and heavy equipment	5 to 10 years
Vehicles	6 years

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 Town has one item that meets this criterion, contributions made to the pension plan in the 2015 fiscal year. In addition to liabilities, the statement of financial 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 Town has two items that meet the criterion for this category: property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

9. Long-Term Obligations

In the government-wide financial statements and the 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 or business-type activities statement of net position.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note I. Summary of Significant Accounting Policies (Continued)

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

10. Compensated Absences

The vacation policy of the Town provides for a maximum accumulation of 24 months of earned vacation leave based on an employee's years of service, 5 years or greater. Such leave is fully vested when earned. Employees that have 0 to 4 years of experience cannot accrue any vacation. At the end of each calendar year, any vacation balance in excess of the amount that an employee could accrue in a 24-month period (not to exceed ten days) is converted to sick leave. Any accrued vacation not converted to sick leave in excess of the maximum accumulation shall be cancelled.

For the Town's government-wide funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town 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 Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but 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 Town has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

Net position in the government-wide financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or the 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note I. Summary of Significant Accounting Policies (Continued)

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

11. Net Position/Fund Balances (Continued)

Fund Balances (Continued)

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 Assets - portion of fund balance that is not an available resource because it represents the year-end balance of costs applicable to future accounting periods, which are not spendable resources.

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

Restricted for Stabilization by State Statute - portion of fund balance that is restricted by state statute [G.S. 159-8(a)].

Restricted for Tourism - portion of fund balance restricted by occupancy tax revenues for tourism-related expenditures.

Restricted for Public Safety - portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures and for law enforcement expenditures.

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by the government through formal action at the highest level of decision-making authority (Town of Kernersville's Board). The governing body 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 a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for Capital Projects - portion of fund balance that is set aside by the Board for capital projects.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note I. Summary of Significant Accounting Policies (Continued)

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

11. Net Position/Fund Balances (Continued)

Fund Balances (Continued)

Assigned Fund Balance - portion of fund balance that the Town of Kernersville intends to use for specific purposes.

Subsequent year's expenditures - portion of total fund balance available for appropriation that has been designated in the next year's budget ordinance, as approved by the Town's governing body.

Unassigned Fund Balance - portion of fund balance that has not been restricted, committed, or assigned to specific purposes.

The Town of Kernersville has a revenue-spending practice that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond and installment financing proceeds, federal funds, state funds, local non-town funds, town 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 finally unassigned fund balance. The Finance Officer has the authority to deviate from this practice, if it is in the best interest of the Town.

The Town of Kernersville has adopted a minimum fund balance policy for the General Fund, which instructs management to conduct business of the Town in such a manner that available fund balance is at least equal to or greater than 20% of budgeted expenditures.

12. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town's employer contributions are recognized when due and the Town 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds

A. Assets

1. Deposits

All deposits of the Town 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 Town's agents in the Town'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 Town, these deposits are considered to be held by the Town's agent in its name. The amount of the pledged collateral is based on an approved averaging method for noninterest-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 Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and 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 Town 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 Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2015, the Town's deposits had a carrying amount of \$6,127,561 and a bank balance of \$6,474,301. Of the bank balance, \$847,005 was covered by federal depository insurance, \$554,432 was covered by collateral held under the Dedicated Method, and the remainder was covered by collateral held under the Pooling Method.

At June 30, 2015, the Town's petty cash fund totaled \$5,950.

2. Investments

At June 30, 2015, the Town had \$7,160,507 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The Town has no formal policy regarding credit risk of its investments.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

A. Assets (Continued)

3. Due from Other Governments

Amounts due from other governments consist of the following:

	<u>Governmental Activities</u>
General Fund	
Sales and use tax distribution	\$ 1,103,054
Sales tax refunds	131,963
Utilities franchise, video programming, solid waste, and telecommunications tax	396,604
Rental vehicle tax	6,170
Alcohol beverage tax	69,661
NCVTS tag and tax proceeds	102,308
Ad valorem taxes receivable	10,110
CCUC reimbursements	47,853
WSFCS reimbursements	188,198
Miscellaneous grant reimbursements	<u>690</u>
Total General Fund	2,056,611
Occupancy Tax Fund	
Occupancy tax reimbursement	<u>10,188</u>
	<u>\$ 2,066,799</u>

4. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2015 are net of the following allowances for doubtful accounts:

General Fund	
Taxes receivable	<u>\$ 73,000</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 68,467,178	\$ 1,629,857	\$ -	\$ 70,097,035
Construction in progress	<u>1,370,008</u>	<u>11,293</u>	<u>(1,370,008)</u>	<u>11,293</u>
Total capital assets not being depreciated	<u>69,837,186</u>	<u>1,641,150</u>	<u>(1,370,008)</u>	<u>70,108,328</u>
Capital assets being depreciated:				
Buildings and improvements	11,467,956	609,182	-	12,077,138
Land improvements	2,687,030	-	-	2,687,030
Infrastructure	87,309,025	1,822,559	-	89,131,584
Equipment and heavy equipment	11,540,197	213,026	(302,679)	11,450,544
Vehicles	<u>3,306,360</u>	<u>216,133</u>	<u>(280,992)</u>	<u>3,241,501</u>
Total capital assets being depreciated	<u>116,310,568</u>	<u>2,860,900</u>	<u>(583,671)</u>	<u>118,587,797</u>
Less accumulated depreciation for:				
Buildings and improvements	5,287,951	232,378	-	5,520,329
Land improvements	1,493,732	105,207	-	1,598,939
Infrastructure	40,127,206	2,174,348	-	42,301,554
Equipment and heavy equipment	8,454,379	774,493	(302,679)	8,926,193
Vehicles	<u>2,632,594</u>	<u>208,991</u>	<u>(280,992)</u>	<u>2,560,593</u>
Total accumulated depreciation	<u>57,995,862</u>	<u>3,495,417</u>	<u>(583,671)</u>	<u>60,907,608</u>
Total capital assets being depreciated, net	<u>58,314,706</u>			<u>57,680,189</u>
Governmental activity capital assets, net	<u>\$ 128,151,892</u>			<u>\$ 127,788,517</u>

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

General government	\$ 183,424
Public safety	660,710
Public service	2,446,503
Cultural and recreational	<u>204,780</u>
Total depreciation expense	<u>\$ 3,495,417</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Stormwater Fund</i>				
Capital assets being depreciated:				
Infrastructure	\$ 137,185	\$ -	\$ -	\$ 137,185
Equipment and heavy equipment	315,747	591,881	-	907,628
Vehicles	<u>42,687</u>	<u>56,946</u>	-	<u>99,633</u>
Total capital assets being depreciated	<u>495,619</u>	<u>648,827</u>	<u>-</u>	<u>1,144,446</u>
Less accumulated depreciation for:				
Infrastructure	24,293	3,430	-	27,723
Equipment and heavy equipment	235,804	28,844	-	264,648
Vehicles	<u>22,226</u>	<u>8,174</u>	-	<u>30,400</u>
Total accumulated depreciation	<u>282,323</u>	<u>40,448</u>	<u>-</u>	<u>322,771</u>
Total capital assets being depreciated, net	<u>213,296</u>			<u>821,675</u>
Stormwater fund capital assets, net	<u>\$ 213,296</u>			<u>\$ 821,675</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities

1. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Governmental Activities	Business- Type Activities	Total
Payable to vendors and others	\$ 596,891	\$ 58,220	\$ 655,111
Accrued payroll and related liabilities	456,303	4,892	461,195
Total accounts payable and accrued liabilities	\$ 1,053,194	\$ 63,112	\$ 1,116,306

2. Pension Plan and Postemployment Obligations

a. ***Local Governmental Employees' Retirement System***

Plan Description. The Town of Kernersville is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement offices (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, or by calling (919) 981-5454, or at www.osc.nc.gov.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

a. ***Local Governmental Employees' Retirement System (Continued)***

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 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service 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. Town of Kernersville employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, 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 Town were \$798,097 for the year ended June 30, 2015.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

a. ***Local Governmental Employees' Retirement System (Continued)***

Refunds of Contributions. Town 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.

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

At June 30, 2015, the Town reported an asset of \$1,338,370 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Town's proportion was 0.227%, which was a decrease of 0.010% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$37,014. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 146,240
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	3,115,695
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	187,111
Town contributions subsequent to the measurement date	<u>798,097</u>	<u>-</u>
Total	<u>\$ 798,097</u>	<u>\$ 3,449,046</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

b. ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)***

\$798,097 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2016	\$ (862,471)
2017	(862,471)
2018	(862,471)
2019	(861,633)
2020	-
Thereafter	<u>-</u>
Total	<u>\$ (3,449,046)</u>

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

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

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

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

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

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

b. ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)***

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, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Target Allocation</u>	<u>Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	<u>4.5%</u>	3.7%
Total	<u><u>100.0%</u></u>	

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

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

b. ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)***

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

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

Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Town'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:

	<u>1%</u> <u>Decrease</u> <u>(6.25%)</u>	<u>Discount</u> <u>Rate</u> <u>(7.25%)</u>	<u>1%</u> <u>Increase</u> <u>(8.25%)</u>
Town's proportionate share of the net pension liability (asset)	<u>\$ 4,543,007</u>	<u>\$ (1,338,370)</u>	<u>\$ (6,290,300)</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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

c. ***Supplemental Retirement Income Plan***

Plan Description. The Town of Kernersville 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 Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Additionally, the Town has elected to include all permanent, full-time employees under this plan. The Supplemental Retirement Income Plan 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. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each sworn law enforcement officer's salary, and all amounts contributed are vested immediately. Participants may also make voluntary contributions to the Plan. Contributions for the year ended June 30, 2015 were \$484,513, which consisted of \$202,801 from the Town and \$281,712 from employees.

d. ***Law Enforcement Officers' Special Separation Allowance***

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

All full-time law enforcement officers of the Town of Kernersville are covered by the Separation Allowance.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

d. ***Law Enforcement Officers' Special Separation Allowance (Continued)***

At December 31, 2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	5
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	<u>66</u>
Total	<u><u>71</u></u>

Summary of Significant Accounting Policies:

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

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

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

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

Contributions:

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

d. ***Law Enforcement Officers' Special Separation Allowance (Continued)***

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included: (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level dollar of pay on a closed basis. The remaining amortization period at December 31, 2014 was 16 years.

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

Annual required contribution	\$ 213,297
Interest on net pension obligation	48,670
Adjustment to annual required Contribution	<u>(82,228)</u>
Annual pension cost	179,739
Contributions made	<u>(98,812)</u>
Increase in net pension obligation	80,927
Net pension obligation, beginning of year	<u>973,393</u>
Net pension obligation, end of year	<u>\$ 1,054,320</u>

Funded Status and Funding Process: As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$1,737,369. The covered payroll (annual payroll of active employees covered by the plan) was \$3,298,235, and the ratio of the UAAL to the covered payroll was 52.68%.

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

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

d. ***Law Enforcement Officers' Special Separation Allowance (Continued)***

Three-Year Trend Information:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/13	\$ 154,728	61.54%	\$ 931,933
6/30/14	149,555	72.28%	973,393
6/30/15	179,739	54.98%	1,054,320

e. ***Other Postemployment Benefits***

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System). For the Town to contribute 100% of the employer's contribution toward health care premiums, the retiree must have completed at least 25 years of creditable service with the Town. To receive 75% of the employer's contribution, the retiree must have completed at least 20 years of creditable service with the Town. To receive 50% of the employer's contribution, the retiree must have completed at least 15 years of creditable service with the Town. Prior to June 30, 2005, employees qualified for full insurance benefits after ten years of creditable service with the Town. The Town pays the cost of coverage for these benefits through private insurers. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. The Town's Board of Aldermen may amend the benefit provisions. A separate report was not issued for the plan.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

e. ***Other Postemployment Benefits (Continued)***

Healthcare Benefits (Continued)

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

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	20	5
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	<u>185</u>	<u>66</u>
Total	<u><u>205</u></u>	<u><u>71</u></u>

Funding Policy. The Town pays the cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Board of Aldermen. The Town's members pay \$486 to \$1,108 per month for dependent coverage depending on the coverage elections. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 7.6% of annual covered payroll. For the current year, the Town contributed \$206,022 or 1.83% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 1.17% and 0.66% of covered payroll, respectively. There were no contributions made by employees to postemployment benefits. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Board of Aldermen.

Summary of Significant Accounting Policies. Postemployment 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

e. ***Other Postemployment Benefits (Continued)***

Healthcare Benefits (Continued)

Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation. The Town's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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 30 years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$	858,630
Interest on net OPEB obligation		177,833
Adjustment to annual required contribution		<u>(169,886)</u>
Annual OPEB cost (expense)		866,577
Contributions made		<u>(206,022)</u>
Increase in net OPEB obligation		660,555
Net OPEB obligation, beginning of year		<u>4,445,829</u>
Net OPEB obligation, end of year		<u>\$ 5,106,384</u>

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

<u>For Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 935,841	10.2%	\$ 3,638,661
2014	935,841	13.7%	4,445,829
2015	866,577	23.8%	5,106,384

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

e. ***Other Postemployment Benefits (Continued)***

Healthcare Benefits (Continued)

Funded Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and thus the unfunded actuarial accrued liability (UAAL) was \$9,146,997. The covered payroll (annual payroll of active employees covered by the plan) was \$11,231,902, and the ratio of the UAAL to the covered payroll was 81.4%. 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.

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

In the December 31, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.5% to 5% annually. Both rates included a 3.00% inflation assumption. The assumed rate of return reflects the fact that no assets are set aside with the Town that are legally held exclusively for retiree health benefits. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014 was 30 years.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Other Employment Benefits

The Town has elected to provide death benefits to local law enforcement 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 local law enforcement 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 to beneficiaries 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 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payrolls, 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 Town considers these contributions to be immaterial.

For the fiscal year ended June 30, 2015, the Town made contributions to the State for death benefits of \$0. The Town's required contributions for employees not engaged in law enforcement represented 0.00% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

Number of Years Contributing	Year Relief	FY Contributions Resume
Less than 10	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The Town of Kernersville will have a three-year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Deferred Outflows and Inflows of Resources

Deferred outflows of resources is comprised solely of contributions to the pension plan in the current fiscal year in the amount of \$798,097.

Deferred inflows of resources at year end is comprised of the following:

Taxes receivable, net (General Fund)	\$ 339,385
Pension deferrals	3,449,046

5. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions, injuries to employees, illnesses of employees and natural disasters. The Town has general liability, auto and property coverages under a fully insured plan through Travelers Insurance. The Town's auto liability coverage has limits up to \$1,000,000 per occurrence, and the general liability coverage has limits up to \$3,000,000 per occurrence, depending on the type of loss. Property coverage is limited up to the total insurance values of the property policy.

The Town is self-funded for workers' compensation insurance. All claims are administered by a third-party administrator. The third-party administrator pays all bills for compensable claims and files documents required by the North Carolina Industrial Commission by personnel licensed to adjust workers' compensation claims in the state of North Carolina. Liabilities of the fund 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 (IBNRs). The estimate of the claims liability also includes other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries from salvage or subrogation, for example, are another component of the claims liability estimate. The Town is insured by Safety National Casualty Corporation for workers' compensation claims in excess of \$550,000 up to statutory limits.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

5. Risk Management (Continued)

Changes in the balances of workers' compensation claims liabilities during the past two years are as follows:

	Year Ended June 30,	
	2015	2014
Unpaid claims, beginning of fiscal year	\$ 250,682	\$ 136,655
Incurred claims (including IBNRs)	178,675	258,314
Claim payments	(406,469)	(144,287)
Unpaid claims, end of fiscal year	\$ 22,888	\$ 250,682

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$250,000 individually. The remainder of the Town employees are also bonded under a blanket policy for \$250,000.

The Town carries flood insurance through Travelers Insurance. The Town's flood coverage limit is \$1,000,000 with a \$50,000 deductible. The Town has one structure, a recycling center, within a FEMA-designated "A" zone (an area close to a river, lake, or stream). The Town elected not to purchase excess flood coverage for that structure due to the unlikelihood that the structure would be damaged if flooding occurred.

The Town carries commercial coverage for all other risks or losses. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

6. Claims and Judgments

At various times the Town may be a defendant to various lawsuits. As of June 30, 2015, the Town's management is not aware of any matters, whereby the ultimate effect would have a material adverse effect on the Town's financial position.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations

a. Installment Purchase Agreements - Equipment and Construction

The Town has entered into installment purchase agreements for the purchase and/or improvement of personal property including vehicles and equipment, as well as real property consisting of land and building improvements. The title to these assets is held in the name of the Town, and security interest has been granted to the financing institution. The installment purchase notes payable at June 30, 2015 are as follows:

Serviced by the General Fund:

Installment purchase note payable in the original amount of \$883,000 for the purchase of various vehicles and equipment. The agreement requires a total of five annual fixed payments of \$182,092, including interest at 1.555%. Payments are due beginning September 28, 2011, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 28, 2015. \$ 179,303

Installment purchase note payable in the original amount of \$500,000 for the financing of various construction projects. The agreement requires a total of five annual variable payments with a fixed principal component of \$100,000, plus interest at 1.63%. Payments are due beginning April 4, 2012, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on April 4, 2016. 100,000

Installment purchase note payable in the original amount of \$687,000 for the purchase of various vehicles and equipment. The agreement requires a total of five annual fixed payments of \$141,549, including interest at 1.51%. Payments are due beginning September 20, 2012, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 20, 2016. 276,813

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

a. Installment Purchase Agreements - Equipment and Construction (Continued)

Installment purchase note payable in the original amount of \$1,218,500 for the purchase of various land and buildings. The agreement requires a total of 15 annual variable payments with a fixed principal component of \$81,233, plus interest at 2.25%. Payments are due beginning August 20, 2012, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on August 20, 2026. \$ 974,800

Installment purchase note payable in the original amount of \$364,750 for the purchase of various vehicles and equipment. The agreement requires a total of five annual fixed payments of \$75,036, including interest at 1.43%. Payments are due beginning September 13, 2013, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 13, 2017. 218,821

Installment purchase note payable in the original amount of \$1,000,000 for the purchase of a fire ladder truck. The agreement requires a total of 12 annual fixed payments of \$93,905, including interest at 2.25%. Payments are due beginning November 8, 2013, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on November 8, 2024. 832,578

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

a. Installment Purchase Agreements - Equipment and Construction (Continued)

Installment purchase note payable in the original amount of \$704,650, of which the General Fund has been allocated \$480,569 for the purchase of various vehicles and equipment. The agreement requires a total of five annual fixed payments of \$144,256, including interest at 1.18%. Payments are due beginning September 12, 2014, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 12, 2018. \$ 381,456

Installment purchase note payable in the original amount of \$475,000 for the purchase of a fire pumper truck. The agreement requires a total of ten annual fixed payments of \$51,843, including interest at 2.00%. Payments are due beginning December 17, 2014, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on December 17, 2023. 423,157

Installment purchase note payable in the original amount of \$1,146,900 for the purchase of a tract of land within the Town's limits. The agreement requires a total of 15 annual variable payments with a fixed principal component of \$76,460, plus interest at 2.63%. Payments are due beginning June 17, 2016, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on June 17, 2030. 1,146,900

Total \$ 4,533,828

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

a. Installment Purchase Agreements - Equipment and Construction (Continued)

Serviced by the Stormwater Fund:

Installment purchase note payable in the original amount of \$704,650, of which the Stormwater Fund has been allocated \$224,081 for the purchase of a street sweeper. The agreement requires a total of five allocated annual fixed payments of \$46,062, including interest at 1.18%. Payments are due beginning September 12, 2014, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 12, 2018. \$ 178,938

Annual debt service payments of the installment purchases as of June 30, 2015 are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 858,517	\$ 95,521	\$ 43,950	\$ 2,112
2017	585,981	80,518	44,469	1,593
2018	451,314	69,777	44,994	1,068
2019	381,138	61,078	45,525	537
2020	286,818	53,365	-	-
2021 - 2025	1,425,293	166,212	-	-
2026 - 2030	544,767	35,647	-	-
Total	<u>\$ 4,533,828</u>	<u>\$ 562,118</u>	<u>\$ 178,938</u>	<u>\$ 5,310</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

b. General Obligation Indebtedness

On May 3, 2004, the Town issued \$7,000,000 in General Obligation Street Bonds, Series 2004, as authorized by a resolution adopted by the Board of Aldermen on September 1, 1998. A portion of the proceeds from these bonds were used to retire short-term bond anticipation notes in the amount of \$5,200,000, which were issued in August 2003 and matured in May 2004.

On July 29, 2014, the Town issued \$4,065,000 in General Obligation Refunding Bonds, Series 2014, as authorized by a resolution adopted by the Board of Aldermen on June 24, 2014 with final approval granted by the Local Government Commission of North Carolina (the "LGC"). The proceeds from these bonds were used to refund the Town's previously outstanding General Obligation Street Bonds, Series 2004 discussed in the previous paragraph, as well as pay certain fees and expenses incurred in connection with the sale and issuance of the bonds. The difference between the reacquisition price and the net carrying amount of the old debt was not material. The refunding was undertaken to reduce future total debt service payments by approximately \$378,000 as a result of the new lower interest rate (2.15% current versus a previous range of 3.0 to 4.6%) and resulted in an economic gain of approximately \$197,000.

All general obligation bonds are collateralized by the full faith, credit and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2015 consist of the following individual issues:

Refunding Bonds, Series 2014; principal due annually on May 1 beginning May 1, 2015 in installments of \$405,000 through 2023 with a final principal installment of \$420,000 due on May 1, 2024; interest due November 1 and May 1 beginning November 1, 2014 at 2.15% per annum.	<u>\$ 3,660,000</u>
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TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

b. General Obligation Indebtedness (Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2016	\$ 405,000	\$ 78,690	\$ 483,690
2017	405,000	69,983	474,983
2018	405,000	61,275	466,275
2019	405,000	52,568	457,568
2020	405,000	43,860	448,860
2021-2024	<u>1,635,000</u>	<u>88,365</u>	<u>1,723,365</u>
	<u>\$ 3,660,000</u>	<u>\$ 394,741</u>	<u>\$ 4,054,741</u>

The State of North Carolina limits the general obligation borrowing of the Town to 8% of its total appraised value of property subject to Town taxation. The Town's legal debt margin, as of June 30, 2015, is as follows:

Assessed value for taxation	\$ 2,501,712,811
Legal debt margin (8%)	200,137,025
Debt applicable to limitation:	
Outstanding general obligation debt	3,660,000
Revolving loan payable	4,000,000
Installment purchases	<u>4,712,766</u>
Total net debt applicable to limit	12,372,766
Remaining legal debt margin	<u>\$ 187,764,259</u>

c. Revolving Loan Payable

On June 3, 2003, the Town was approved for a maximum loan amount of \$8,000,000 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Clean Water State Revolving Fund. The loan proceeds were used to assist in the relocation of the Deep River Pump Station, construction of the Twin Creek Pump Station, and construction of new force mains and interceptors ending at the Abbott's Creek Pump Station. The loan is repayable in equal principal repayments of \$400,000 plus interest at 2.42% through fiscal year ending 2025. The Town repaid \$400,000 during fiscal year ended June 30, 2015. The total amount outstanding at June 30, 2015 was \$4,000,000.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

c. Revolving Loan Payable (Continued)

Annual debt service requirements to maturity for the Revolving Loan Payable are as follows:

Fiscal Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2016	\$ 400,000	\$ 96,800	\$ 496,800
2017	400,000	87,120	487,120
2018	400,000	77,440	477,440
2019	400,000	67,760	467,760
2020	400,000	58,080	458,080
2021-2025	<u>2,000,000</u>	<u>145,200</u>	<u>2,145,200</u>
	<u>\$ 4,000,000</u>	<u>\$ 532,400</u>	<u>\$ 4,532,400</u>

d. Changes in Long-Term Obligations

During the year ended June 30, 2015, the following changes occurred in long-term obligations:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015	Current Portion of Balance
Governmental activities:					
General obligation bonds	\$ 4,000,000	\$ 4,065,000	\$ (4,405,000)	\$ 3,660,000	\$ 405,000
Revolving loan payable	4,400,000	-	(400,000)	4,000,000	400,000
Installment purchases	3,440,214	2,102,469	(1,008,855)	4,533,828	858,517
Compensated absences	1,457,945	1,192,825	(1,363,171)	1,287,599	1,287,599
Net pension obligation	973,393	179,739	(98,812)	1,054,320	-
Net OPEB obligation	<u>4,445,829</u>	<u>866,577</u>	<u>(206,022)</u>	<u>5,106,384</u>	<u>-</u>
	<u>\$ 18,717,381</u>	<u>\$ 8,406,610</u>	<u>\$ (7,481,860)</u>	<u>\$ 19,642,131</u>	<u>\$ 2,951,116</u>
Business-type activities:					
Installment purchases	\$ -	\$ 224,081	\$ (45,143)	\$ 178,938	\$ 43,950
Compensated absences	<u>18,706</u>	<u>4,731</u>	<u>(20,026)</u>	<u>3,411</u>	<u>3,411</u>
	<u>\$ 18,706</u>	<u>\$ 228,812</u>	<u>\$ (65,169)</u>	<u>\$ 182,349</u>	<u>\$ 47,361</u>

Compensated absences, net pension obligation, and net OPEB obligation have typically been liquidated in the General Fund.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

C. Interfund Balances and Activity

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

From the General Fund to the Stormwater Fund for storm water fees.	\$ 216,579
From the General Fund to the Emergency Telephone System Fund to offset the originally anticipated reimbursement from Forsyth County that was not received.	59,392
From the Capital Reserve Fund to the General Fund in the amounts of (1) \$110 for interest income, (2) \$56,622 for transportation projects, and (3) \$79,928 for a medical insurance rebate received during the previous fiscal year.	136,660
From the Stormwater Fund to the General Fund for (1) \$450,910 reimbursement of various expenses as well as (2) an additional \$51,000 to support community development.	501,910
From the Justice Assistance Grant Fund to the General Fund to transfer remaining fund balance and close out the fund.	79
From the Occupancy Tax Fund to the General Fund in the amounts of (1) \$21,150 to support the Kernersville Museum and (2) \$26,510 to provide funding for recreational expenses.	<u>47,660</u>
	<u>\$ 962,280</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note II. Detail Notes on All Funds (Continued)

D. Fund Balance

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

Total fund balance - General Fund	\$	11,518,198
Less:		
Prepaid assets		5,250
Stabilization by state statute		2,227,084
Capital projects		684,526
Appropriated fund balance in subsequent fiscal year's budget		<u>253,144</u>
Unassigned fund balance		8,348,194
Working capital/fund balance policy		<u>5,601,303</u>
Remaining fund balance	\$	<u>2,746,891</u>

The Town of Kernersville has adopted a minimum fund balance policy for the General Fund, which instructs management to conduct business of the Town in such a manner that available fund balance is at least equal to or greater than 20% of budgeted expenditures.

Note III. Reconciliation of GAAP and Budget Basis Expenditures

The accompanying schedule reconciles certain General Fund transactions which are treated differently on Exhibit 4 (GAAP basis) and Exhibit 6 (budgetary basis). These differences relate to installment purchase transactions and the water/sewer bond indebtedness, and are summarized below:

	<u>Exhibit 4</u>	Increase <u>(Decrease)</u>		<u>Exhibit 5</u>
General government	\$ 4,207,196	\$ 145,624	(1)	\$ 4,352,820
Public safety	12,398,515	611,037	(1)	13,009,552
Public service	6,607,747	244,433	(1)	6,852,180
Culture and recreation	1,726,926	35,243	(1)	1,762,169
Debt service	-	1,058,864	(1)	1,058,864
Principal retirement	1,774,365	(1,774,365)	(1)	-
Interest and fiscal charges	255,836	(255,836)	(1)	-
Bond issuance costs	<u>65,000</u>	<u>(65,000)</u>	(1)	<u>-</u>
Total	<u>\$ 27,035,585</u>	<u>\$ -</u>		<u>\$ 27,035,585</u>

(1) *Reclassification of installment purchases and note payments.*

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note IV. Jointly Governed Organizations

The Town is a participating member of the Piedmont Triad Regional Council (PTRC), which is a voluntary association of local governments serving 73 member governments in a 12 county area. The PTRC was established to make and implement joint regional decisions by bringing together local elected officials on a regular basis to give them an opportunity to form working relationships and promote cooperation among the members. Each of the 73 participating governments appoint one member to the PTRC's Board of Delegates. The Town paid membership fees of \$5,003 to the PTRC during the fiscal year ended June 30, 2015.

The Town, along with six other municipalities and Forsyth County, is also a participating member of the Triad Municipal Alcoholic Beverage Control Board. The Town of Kernersville appoints one member to the nine-member governing board. This organization was established under North Carolina Alcoholic Beverage laws to operate liquor stores in the Davie, Forsyth, Guilford and Yadkin County areas. North Carolina General Statutes require the ABC Board to distribute its net income to the participating municipalities. The distribution to the Town amounted to \$338,017 during the fiscal year ended June 30, 2015. Complete financial statements for the Triad Municipal ABC Board are available through their administrative offices at 3127 Starlight Drive, Winston-Salem, North Carolina 27107-4141.

Note V. Interlocal Agreement

An interlocal agreement between the Town and City/County Utility Commission (CCUC), which oversees the Winston-Salem/Forsyth County water and sewer system, was established in 1996. As a condition of the interlocal agreement, the Town transferred control and ownership of its pre-existing water and sewer systems and extensions to the CCUC, and the CCUC agreed to assume sole responsibility for planning, constructing, operating and maintaining the water and sewer systems. As part of the agreement, it was determined that the CCUC would charge the Town's sewer service customers an incremental rate to defray costs of repairs and continual improvements to the systems. The incremental rate was set to decline over the next ten years, allowing the overall rate charged to the Town's sewer customers to parallel those charged to similar customers. However, during July 2003, the incremental rate was frozen and a Rate Differential Account was established to accumulate the difference between the frozen rate and the previously scheduled rates. The funds accumulated within the Rate Differential Account were to be used by the Town for future water and sewer projects and debt service of the revolving loan payable (see Note II.B.7.c). Under the terms of the most recent modification agreement in December 2011, the contract was extended to June 30, 2012. As of June 30, 2012, the funds within the Rate Differential Account were to be released by the CCUC and the sewer rates lowered to the originally scheduled rates. However, since that date, the Town and the CCUC have continued to negotiate a new contract, the rates charged to Town residents remain at the 2003 frozen rates and the Rate Differential Account remains in the possession of the CCUC. As of June 30, 2015, the Rate Differential Account amounted to \$13,928,320.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Note VI. Summary Disclosure of Significant Contingencies

Federal- and State-Assisted Programs

The Town 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.

Note VII. Subsequent Events

In the fiscal year 2015-16, the Town of Kernersville entered into two installment purchase agreements for the purchase of personal property (primarily vehicles and equipment) and improvements to real property. On August 26, 2015, the Town executed an installment purchase note payable in the amount of \$1,550,400. The General Fund was allocated \$1,165,400 for the purchase of various vehicles and equipment and the Stormwater Enterprise Fund was allocated \$385,000 for the same. The agreement requires a total of five annual fixed payments of \$318,523 including interest at 1.36%. Payments are due beginning August 26, 2015 and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on August 26, 2019.

On September 16, 2015, the Town of Kernersville executed an installment purchase note payable in the amount of \$1,097,000 for the financing of various construction projects at both the Public Services Yard and the Ivey Redmon Sports Complex. The General Fund was allocated the entire amount for those improvements. The agreement requires a total of ten annual fixed principal payments of \$109,700 plus interest at 1.98%. Payments are due beginning September 18, 2015 and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 18, 2024.

Note VIII. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, in the fiscal year ending June 30, 2015. The implementation of the statements required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$2,032,188 and \$41,474, respectively.

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REQUIRED SUPPLEMENTARY FINANCIAL DATA

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

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Required Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Funding Progress for the Other Postemployment Benefits
- Schedule of Employer Contributions for the Other Postemployment Benefits
- Notes to the Required Schedules for the Other Postemployment Benefits
- Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System

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TOWN OF KERNERSVILLE, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Exhibit A-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) ÷ (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) - (a)) ÷ (c)
12/31/05	\$ -	\$ 610,665	\$ 610,665	0.00%	\$ 2,325,132	26.26%
12/31/06	-	672,174	672,174	0.00%	2,511,904	26.76%
12/31/07	-	791,713	791,713	0.00%	2,646,994	29.91%
12/31/08	-	895,407	895,407	0.00%	2,962,535	30.22%
12/31/09	-	1,424,440	1,424,440	0.00%	2,988,346	47.67%
12/31/10	-	1,397,452	1,397,452	0.00%	2,962,131	47.18%
12/31/11	-	1,517,681	1,517,681	0.00%	3,048,252	49.79%
12/31/12	-	1,622,823	1,622,823	0.00%	3,085,140	52.60%
12/31/13	-	1,690,078	1,690,078	0.00%	3,179,396	53.16%
12/31/14	-	1,737,369	1,737,369	0.00%	3,298,235	52.68%

TOWN OF KERNERSVILLE, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REQUIRED EMPLOYER CONTRIBUTIONS

Exhibit A-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Annual Percentage Contributed</u>
2006	\$ 75,105	12.41%
2007	75,595	12.33%
2008	82,574	11.28%
2009	93,216	11.95%
2010	107,700	45.54%
2011	151,644	44.40%
2012	149,457	45.05%
2013	165,399	57.57%
2014	178,885	60.43%
2015	213,297	46.33%

NOTES TO THE REQUIRED SCHEDULES

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

Valuation date	December 31, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	16 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return *	5.00%
Projected salary increases *	4.25% - 7.85%
* Includes inflation at	3.00%
Cost of living adjustments	N/A

**TOWN OF KERNERSVILLE, NORTH CAROLINA
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

Exhibit B-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) ÷ (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) ÷ (c)
12/31/2006	\$ -	\$ 6,690,783	\$ 6,690,783	0.00%	\$ 8,967,409	74.61%
12/31/2008	-	6,541,154	6,541,154	0.00%	9,923,760	65.91%
12/31/2010	-	8,779,756	8,779,756	0.00%	10,698,071	82.07%
12/31/2012	-	9,076,103	9,076,103	0.00%	10,822,067	83.87%
12/31/2014	-	9,146,997	9,146,997	0.00%	11,231,902	81.44%

**TOWN OF KERNERSVILLE, NORTH CAROLINA
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Exhibit B-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Annual Percentage Contributed</u>
2013	\$ 930,839	11.74%
2014	930,839	13.82%
2015	858,630	23.99%

NOTES TO THE REQUIRED SCHEDULES

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

Valuation date	December 31, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return *	4.00%
Medical cost trend	7.50% - 5.00%
* Includes inflation at	3.00%
Cost of living adjustments	N/A

**TOWN OF KERNERSVILLE, NORTH CAROLINA
 PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
 REQUIRED SUPPLEMENTARY INFORMATION
 LAST TWO FISCAL YEARS***

Schedule C-1

Local Government Employees' Retirement System

	2015	2014
Kernersville's proportion of the net pension liability (asset) (%)	0.22694%	0.23710%
Kernersville's proportion of the net pension liability (asset) (\$)	\$ (1,338,370)	\$ 2,857,965
Kernersville's covered-employee payroll	\$ 10,999,722	\$ 10,989,967
Kernersville's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-12.17%	26.01%
Plan fiduciary net position as a percentage of the total pension liability**	102.64%	94.35%

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

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

**TOWN OF KERNERSVILLE, NORTH CAROLINA
 SCHEDULE OF CONTRIBUTIONS
 REQUIRED SUPPLEMENTARY INFORMATION
 LAST TWO FISCAL YEARS**

Schedule C-2

Local Government Employees' Retirement System

	2015	2014
Contractually required contribution	\$ 798,097	\$ 784,303
Contributions in relation to the contractually required contribution	798,097	784,303
Contribution deficiency (excess)	\$ -	\$ -
Kernersville's covered-employee payroll	\$ 11,129,175	\$ 10,999,722
Contributions as a percentage of covered-employee payroll	7.17%	7.13%

***SUPPLEMENTARY INFORMATION:
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES***

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**TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2015**

Schedule 1
Page 1 of 5

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
General revenues:			
Ad valorem taxes:			
Current	\$ 13,041,383	\$ 13,396,397	\$ 355,014
Prior	211,000	132,052	(78,948)
	<u>13,252,383</u>	<u>13,528,449</u>	<u>276,066</u>
Other taxes and licenses:			
Local vehicle taxes and fees	100,100	105,369	5,269
Cablevision fees	52,000	19,306	(32,694)
	<u>152,100</u>	<u>124,675</u>	<u>(27,425)</u>
Unrestricted intergovernmental:			
Solid waste disposal tax	24,000	15,503	(8,497)
Utility sales tax	924,041	1,340,231	416,190
Telecommunications sales tax	260,700	231,508	(29,192)
Alcoholic beverage tax	377,201	452,601	75,400
Local option sales and use tax	3,976,572	4,239,410	262,838
Rental vehicle fees	45,000	67,663	22,663
Video programming	252,499	259,111	6,612
	<u>5,860,013</u>	<u>6,606,027</u>	<u>746,014</u>
Restricted intergovernmental:			
Powell Bill	649,286	647,548	(1,738)
State transportation grants	1,303,688	955,305	(348,383)
CCUC reimbursements	799,000	89,720	(709,280)
Governor's Highway Safety grants	34,633	44,253	9,620
NC Department of Pollution grant	25,000	-	(25,000)
Federal Department of Justice grants	14,735	17,599	2,864
	<u>2,826,342</u>	<u>1,754,425</u>	<u>(1,071,917)</u>
Penalties and interest:			
Penalties and interest	21,000	53,078	32,078
Investment earnings	11,217	6,867	(4,350)
	<u>32,217</u>	<u>59,945</u>	<u>27,728</u>
Contributions and donations	895,780	934,121	38,341
Other general revenues:			
Other	30,000	59,496	29,496
Total general revenues	<u>23,048,835</u>	<u>23,067,138</u>	<u>18,303</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule 1
Page 2 of 5

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Functionally related revenues:			
Use and rental fees:			
Recreation revenue	\$ 293,925	\$ 298,021	\$ 4,096
Commercial industrial collection fees	720,600	695,151	(25,449)
Court facility fees	23,000	26,722	3,722
Rent on town property	531,007	522,946	(8,061)
Building inspections	301,116	274,777	(26,339)
Zoning fees	52,700	54,580	1,880
Recycling revenue	210,392	209,295	(1,097)
Yard waste cart fees and sales	118,130	117,290	(840)
Other functionally related fees	280,161	243,352	(36,809)
	<u>2,531,031</u>	<u>2,442,134</u>	<u>(88,897)</u>
Total functionally related revenues			
Total revenues	<u>25,579,866</u>	<u>25,509,272</u>	<u>(70,594)</u>
Expenditures:			
Current:			
General government:			
Governing body:			
Personnel services	-	31,630	-
Operating and maintenance	-	256,208	-
Other improvements	-	198,687	-
Special appropriations	-	39,196	-
Installment purchase agreement payments	-	89,872	-
	<u>652,676</u>	<u>615,593</u>	<u>37,083</u>
Administration:			
Personnel services	-	282,948	-
Operating and maintenance	-	35,896	-
Capital outlay	-	632,912	-
	<u>1,014,822</u>	<u>951,756</u>	<u>63,066</u>
Finance:			
Personnel services	-	442,997	-
Operating and maintenance	-	323,248	-
Capital outlay	-	11,293	-
Installment purchase agreement payments	-	5,568	-
	<u>830,098</u>	<u>783,106</u>	<u>46,992</u>
Information technology:			
Personnel services	-	256,207	-
Operating and maintenance	-	121,491	-
Installment purchase agreement payments	-	30,980	-
	<u>409,391</u>	<u>408,678</u>	<u>713</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2015**

Schedule 1
Page 3 of 5

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Planning and zoning:			
Personnel services	\$ -	\$ 321,358	\$ -
Operating and maintenance	-	33,547	-
	<u>370,479</u>	<u>354,905</u>	<u>15,574</u>
Human Resources:			
Personnel services	-	519,897	-
Operating and maintenance	-	149,036	-
Capital outlay	-	6,317	-
	<u>687,537</u>	<u>675,250</u>	<u>12,287</u>
General services:			
Personnel services	-	141,287	-
Operating and maintenance	-	403,041	-
Installment purchase agreement payments	-	19,204	-
	<u>606,860</u>	<u>563,532</u>	<u>43,328</u>
Total general government	<u>4,571,863</u>	<u>4,352,820</u>	<u>219,043</u>
Public safety:			
Police department:			
Personnel services	-	5,807,210	-
Operating and maintenance	-	1,081,148	-
Special appropriations	-	7,586	-
Capital outlay	-	150,032	-
Installment purchase agreement payments	-	277,292	-
	<u>7,456,983</u>	<u>7,323,268</u>	<u>133,715</u>
Fire department:			
Personnel services	-	4,323,935	-
Operating and maintenance	-	693,893	-
Special appropriations	-	12,500	-
Installment purchase agreement payments	-	333,745	-
	<u>5,940,518</u>	<u>5,364,073</u>	<u>576,445</u>
Inspections:			
Personnel services	-	296,582	-
Operating and maintenance	-	25,629	-
	<u>355,319</u>	<u>322,211</u>	<u>33,108</u>
Total public safety	<u>13,752,820</u>	<u>13,009,552</u>	<u>743,268</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule 1
Page 4 of 5

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public service:			
Engineering department:			
Personnel services	\$ -	\$ 245,346	\$ -
Operating and maintenance	-	186,461	-
Capital outlay	-	600,000	-
	<u>1,523,462</u>	<u>1,031,807</u>	<u>491,655</u>
Street department:			
Personnel services	-	904,214	-
Operating and maintenance	-	737,845	-
Capital outlay	-	734,871	-
Installment purchase agreement payments	-	75,320	-
	<u>2,644,428</u>	<u>2,452,250</u>	<u>192,178</u>
Sanitation department:			
Personnel services	-	887,598	-
Operating and maintenance	-	707,577	-
Installment purchase agreement payments	-	169,113	-
	<u>1,780,058</u>	<u>1,764,288</u>	<u>15,770</u>
Public works administration:			
Personnel services	-	351,769	-
Operating and maintenance	-	27,807	-
	<u>390,634</u>	<u>379,576</u>	<u>11,058</u>
Central maintenance:			
Personnel services	-	431,189	-
Operating and maintenance	-	793,070	-
	<u>1,423,429</u>	<u>1,224,259</u>	<u>199,170</u>
Total public service	<u>7,762,011</u>	<u>6,852,180</u>	<u>909,831</u>
Cultural and recreational:			
Recreation department:			
Personnel services	-	583,604	-
Operating and maintenance	-	1,072,072	-
Capital outlay	-	29,936	-
Installment purchase agreement payments	-	35,243	-
	<u>1,797,816</u>	<u>1,720,855</u>	<u>76,961</u>
Paddison Library:			
Operating and maintenance	-	41,314	-
	<u>54,332</u>	<u>41,314</u>	<u>13,018</u>
Total cultural and recreational	<u>1,852,148</u>	<u>1,762,169</u>	<u>89,979</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule 1
Page 5 of 5

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Debt service:			
Principal retirement	\$ 805,000	\$ 805,000	\$ -
Interest and fiscal charges	188,864	188,864	-
Bond issuance costs	65,000	65,000	-
Total debt service	<u>1,058,864</u>	<u>1,058,864</u>	<u>-</u>
Total expenditures	<u>28,997,706</u>	<u>27,035,585</u>	<u>1,962,121</u>
Revenues under expenditures	<u>(3,417,840)</u>	<u>(1,526,313)</u>	<u>1,891,527</u>
Other financing sources (uses):			
Transfers from other funds:			
Occupancy Tax Fund	47,660	47,660	-
Justice Assistance Grant Fund	-	79	79
Stormwater Fund	501,910	501,910	-
Capital Reserve Fund	136,550	136,660	110
Transfers to other funds:			
Emergency Telephone System Fund	(59,392)	(59,392)	-
Stormwater Fund	(216,579)	(216,579)	-
Total net transfers	410,149	410,338	189
Refunding bonds issued	4,065,000	4,065,000	-
Debt service - principal	(4,000,000)	(4,000,000)	-
Installment purchase obligations issued	1,584,650	2,102,469	517,819
Sale of capital assets	100,000	111,089	11,089
Total other financing sources	<u>2,159,799</u>	<u>2,688,896</u>	<u>529,097</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(1,258,041)	1,162,583	2,420,624
Appropriated fund balance	<u>1,258,041</u>	<u>-</u>	<u>(1,258,041)</u>
Revenues, other financing sources and appropriated fund balance over expenditures and other financing uses	<u>\$ -</u>	<u>1,162,583</u>	<u>\$ 1,162,583</u>
Fund balance, beginning		<u>9,671,089</u>	
Fund balance, ending		<u>\$ 10,833,672</u>	

TOWN OF KERNERSVILLE, NORTH CAROLINA
CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule 2

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Investment earnings	\$ -	\$ 100	\$ 146	\$ 46
Expenditures:				
Capital reserve expenditures	-	820,893	-	820,893
Revenues over (under) expenditures	-	(820,793)	146	820,939
Other financing uses:				
Transfers out:				
General Fund	(136,560)	(136,660)	(136,660)	-
Revenues under expenditures and other financing uses	(136,560)	(957,453)	(136,514)	820,939
Appropriated fund balance	136,560	957,453	-	(957,453)
Revenues and appropriated fund balance under expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	(136,514)	<u>\$ (136,514)</u>
Fund balance, beginning			821,040	
Fund balance, ending			<u>\$ 684,526</u>	

NONMAJOR GOVERNMENTAL FUNDS

OCCUPANCY TAX FUND - accounts for the revenue generated by the tax charged on hotel and motel rooms to be used to promote travel and tourism, and tourism-related expenditures.

EMERGENCY TELEPHONE SYSTEM FUND - accounts for 911 system subscriber fees and levies as provided for in North Carolina General Statute (NCGS) 159-26(b)(2). Under NCGS Chapter 62A, the Town of Kernersville imposes a monthly service charge to cover the cost of administering an enhanced 911 emergency telecommunications wire line system.

CONTRIBUTIONS FUND - accounts for donations used to support drug education programs.

LAW ENFORCEMENT FORFEITURES FUND - accounts for restricted proceeds resulting from the sale of properties seized in criminal investigations.

FEDERAL JUSTICE ASSISTANCE GRANT FUND - accounts for revenues and expenditures associated with activities of federal justice assistance grants.

PUBLIC WORKS FACILITY CAPITAL PROJECTS ORDINANCE FUND - accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the new public works facility.

KERNER MILL GREENWAY CAPITAL PROJECTS ORDINANCE FUND - accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the Kerner Mill Greenway.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
 COMBINING BALANCE SHEET -
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2015**

	Nonmajor Special Revenue Funds		
ASSETS	Occupancy Tax Fund	Emergency Telephone System Fund	Contributions Fund
Cash and cash equivalents	\$ 7,880	\$ 4,036	\$ 85,149
Due from other governments	10,188	-	-
Total assets	\$ 18,068	\$ 4,036	\$ 85,149
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 468
Total liabilities	-	-	468
Fund balances:			
Restricted			
Stabilization by state statute	10,188	-	-
Tourism	7,880	-	-
Public safety	-	4,036	84,681
Committed			
Capital projects	-	-	-
Total fund balances	18,068	4,036	84,681
Total liabilities and fund balances	\$ 18,068	\$ 4,036	\$ 85,149

<u>Nonmajor Special Revenue Funds</u>		<u>Nonmajor Capital Project Funds</u>		<u>Total Nonmajor Governmental Funds</u>
<u>Law Enforcement Forfeitures Fund</u>	<u>Federal Justice Assistance Grant Fund</u>	<u>Public Works Facility Capital Projects Ordinance Fund</u>	<u>Kerner Mill Greenway Capital Projects Ordinance Fund</u>	
\$ 278,483	\$ -	\$ 555,790	\$ 95,549	\$ 1,026,887
-	-	-	-	10,188
<u>\$ 278,483</u>	<u>\$ -</u>	<u>\$ 555,790</u>	<u>\$ 95,549</u>	<u>\$ 1,037,075</u>
\$ -	\$ -	\$ -	\$ -	\$ 468
-	-	-	-	468
-	-	-	-	10,188
-	-	-	-	7,880
278,483	-	-	-	367,200
-	-	555,790	95,549	651,339
278,483	-	555,790	95,549	1,036,607
<u>\$ 278,483</u>	<u>\$ -</u>	<u>\$ 555,790</u>	<u>\$ 95,549</u>	<u>\$ 1,037,075</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015**

	<u>Nonmajor Special Revenue Funds</u>		
	<u>Occupancy Tax Fund</u>	<u>Emergency Telephone System Fund</u>	<u>Contributions Fund</u>
Revenues:			
Other taxes and licenses	\$ 113,742	\$ -	\$ -
Restricted intergovernmental	-	-	-
Investment earnings	6	4	5
Contributions and donations	-	-	5,920
Total revenues	<u>113,748</u>	<u>4</u>	<u>5,925</u>
Expenditures:			
Public safety	-	24,680	6,315
Cultural and recreational	64,500	-	-
Debt service:			
Principal	-	39,490	-
Interest and other charges	-	1,238	-
Total expenditures	<u>64,500</u>	<u>65,408</u>	<u>6,315</u>
Revenues over (under) expenditures	<u>49,248</u>	<u>(65,404)</u>	<u>(390)</u>
Other financing sources (uses):			
Transfers in:			
General Fund	-	59,392	-
Transfers out:			
General Fund	(47,660)	-	-
Total other financing sources (uses)	<u>(47,660)</u>	<u>59,392</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	1,588	(6,012)	(390)
Fund balances, beginning	<u>16,480</u>	<u>10,048</u>	<u>85,071</u>
Fund balances, ending	<u>\$ 18,068</u>	<u>\$ 4,036</u>	<u>\$ 84,681</u>

<u>Nonmajor Special Revenue Funds</u>		<u>Nonmajor Capital Project Funds</u>		<u>Total Nonmajor Governmental Funds</u>
<u>Law Enforcement Forfeitures Fund</u>	<u>Federal Justice Assistance Grant Fund</u>	<u>Public Works Facility Capital Projects Ordinance Fund</u>	<u>Kerner Mill Greenway Capital Projects Ordinance Fund</u>	
\$ -	\$ -	\$ -	\$ -	\$ 113,742
107,828	-	-	-	107,828
15	-	98	17	145
-	-	-	-	5,920
<u>107,843</u>	<u>-</u>	<u>98</u>	<u>17</u>	<u>227,635</u>
79,466	520	-	-	110,981
-	-	-	7,600	72,100
-	-	-	-	39,490
-	-	-	-	1,238
<u>79,466</u>	<u>520</u>	<u>-</u>	<u>7,600</u>	<u>223,809</u>
<u>28,377</u>	<u>(520)</u>	<u>98</u>	<u>(7,583)</u>	<u>3,826</u>
-	-	-	-	59,392
-	(79)	-	-	(47,739)
-	(79)	-	-	11,653
28,377	(599)	98	(7,583)	15,479
<u>250,106</u>	<u>599</u>	<u>555,692</u>	<u>103,132</u>	<u>1,021,128</u>
<u>\$ 278,483</u>	<u>\$ -</u>	<u>\$ 555,790</u>	<u>\$ 95,549</u>	<u>\$ 1,036,607</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
OCCUPANCY TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule 5

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Occupancy tax proceeds	\$ -	\$ -	\$ 113,742	\$ -
Investment earnings	-	-	6	-
Total revenues	<u>91,010</u>	<u>101,010</u>	<u>113,748</u>	<u>12,738</u>
Expenditures:				
Cultural and recreational	<u>64,500</u>	<u>64,500</u>	<u>64,500</u>	<u>-</u>
Revenues over expenditures	<u>26,510</u>	<u>36,510</u>	<u>49,248</u>	<u>12,738</u>
Other financing uses:				
Transfers out:				
General Fund	<u>(26,510)</u>	<u>(47,660)</u>	<u>(47,660)</u>	<u>-</u>
Revenues over (under) expenditures and other uses	-	(11,150)	1,588	12,738
Appropriated fund balance	<u>-</u>	<u>11,150</u>	<u>-</u>	<u>(11,150)</u>
Revenues and appropriated fund balance over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	1,588	<u>\$ 1,588</u>
Fund balance, beginning			<u>16,480</u>	
Fund balance, ending			<u>\$ 18,068</u>	

**TOWN OF KERNERSVILLE, NORTH CAROLINA
EMERGENCY TELEPHONE SYSTEM FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2015**

Schedule 6

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
Revenues:				
Restricted intergovernmental	\$ 33,033	\$ -	\$ -	\$ -
Investment earnings	-	-	4	4
Total revenues	<u>33,033</u>	<u>-</u>	<u>4</u>	<u>4</u>
Expenditures:				
Public safety:				
Other operating expenditures	-	-	24,680	-
Debt service:				
Principal retirement	-	-	39,490	-
Interest and other charges	-	-	1,238	-
Total expenditures	<u>67,949</u>	<u>67,949</u>	<u>65,408</u>	<u>2,541</u>
Revenues under expenditures	<u>(34,916)</u>	<u>(67,949)</u>	<u>(65,404)</u>	<u>2,545</u>
Other financing sources:				
Transfers in:				
General Fund	<u>26,359</u>	<u>59,392</u>	<u>59,392</u>	<u>-</u>
Revenues and other financing sources under expenditures	<u>(8,557)</u>	<u>(8,557)</u>	<u>(6,012)</u>	<u>2,545</u>
Appropriated fund balance	<u>8,557</u>	<u>8,557</u>	<u>-</u>	<u>(8,557)</u>
Revenues and appropriated fund balance under expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(6,012)</u>	<u>\$ (6,012)</u>
Fund balance, beginning			<u>10,048</u>	
Fund balance, ending			<u>\$ 4,036</u>	

TOWN OF KERNERSVILLE, NORTH CAROLINA
CONTRIBUTIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule 7

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive</u> <u>(Negative)</u>
Revenues:				
Investment earnings	\$ -	\$ -	\$ 5	\$ -
Contributions and donations	-	-	5,920	-
Total revenues	<u>\$ 3,525</u>	<u>\$ 5,125</u>	<u>5,925</u>	<u>\$ 800</u>
Expenditures:				
Public safety	-	-	6,315	-
Total expenditures	<u>4,000</u>	<u>7,200</u>	<u>6,315</u>	<u>885</u>
Revenues under expenditures	(475)	(2,075)	(390)	1,685
Appropriated fund balance	<u>475</u>	<u>2,075</u>	<u>-</u>	<u>(2,075)</u>
Revenues and appropriated fund balance under expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(390)</u>	<u>\$ (390)</u>
Fund balance, beginning			<u>85,071</u>	
Fund balance, ending			<u>\$ 84,681</u>	

**TOWN OF KERNERSVILLE, NORTH CAROLINA
LAW ENFORCEMENT FORFEITURES FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2015**

Schedule 8

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
Revenues:				
Restricted intergovernmental	\$ -	\$ -	\$ 107,828	\$ -
Investment earnings	-	-	15	-
Total revenues	<u>75</u>	<u>103,101</u>	<u>107,843</u>	<u>4,742</u>
Expenditures:				
Public safety	-	-	72,303	-
Capital outlay	-	-	7,163	-
Total expenditures	<u>109,110</u>	<u>143,560</u>	<u>79,466</u>	<u>64,094</u>
Revenues over expenditures	(109,035)	(40,459)	28,377	68,836
Appropriated fund balance	<u>109,035</u>	<u>40,459</u>	<u>-</u>	<u>(40,459)</u>
Revenues and appropriated fund balance under expenditures	<u>\$ -</u>	<u>\$ -</u>	28,377	<u>\$ 28,377</u>
Fund balance, beginning			<u>250,106</u>	
Fund balance, ending			<u>\$ 278,483</u>	

**TOWN OF KERNERSVILLE, NORTH CAROLINA
 FEDERAL JUSTICE ASSISTANCE GRANT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 For the Year Ended June 30, 2015**

Schedule 9

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Restricted intergovernmental	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures:				
Public safety	-	-	520	-
Total expenditures	-	520	520	-
Revenues under expenditures	-	(520)	(520)	-
Other financing uses:				
Transfers out:				
General Fund	-	(79)	(79)	-
Revenues under expenditures and other financing uses	-	(599)	(599)	-
Appropriated fund balance	-	599	-	599
Revenues and appropriated fund balance under expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	(599)	<u>\$ (599)</u>
Fund balance, beginning			599	
Fund balance, ending			<u>\$ -</u>	

TOWN OF KERNERSVILLE, NORTH CAROLINA

Schedule 10

CAPITAL PROJECTS FUNDS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - PROJECT AUTHORIZATION AND ACTUAL - PUBLIC WORKS

FACILITY CAPITAL PROJECTS ORDINANCE FUND

From Inception and for the Year Ended June 30, 2015

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Investment earnings	\$ 27,076	\$ 27,134	\$ 98	\$ 27,232	\$ 156
Total revenues	<u>27,076</u>	<u>27,134</u>	<u>98</u>	<u>27,232</u>	<u>156</u>
Expenditures:					
Public service:					
Capital development					
Other operating expenditures	449,057	443,768	-	443,768	5,289
Total public service	<u>449,057</u>	<u>443,768</u>	<u>-</u>	<u>443,768</u>	<u>5,289</u>
Cultural and recreational:					
Capital development					
Capital outlay	550,345	-	-	-	550,345
Total cultural and recreational	<u>550,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>550,345</u>
Total expenditures	<u>999,402</u>	<u>443,768</u>	<u>-</u>	<u>443,768</u>	<u>555,634</u>
Revenues over (under) expenditures	<u>(972,326)</u>	<u>(416,634)</u>	<u>98</u>	<u>(416,536)</u>	<u>555,790</u>
Other financing sources:					
Transfers in:					
General Fund	567,326	567,326	-	567,326	-
Stormwater Fund	405,000	405,000	-	405,000	-
Total other financing sources	<u>972,326</u>	<u>972,326</u>	<u>-</u>	<u>972,326</u>	<u>-</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 555,692</u>	<u>98</u>	<u>\$ 555,790</u>	<u>\$ 555,790</u>
Fund balance, beginning			<u>555,692</u>		
Fund balance, ending			<u>\$ 555,790</u>		

CAPITAL PROJECTS FUNDS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - PROJECT AUTHORIZATION AND ACTUAL - KERNER MILL
GREENWAY CAPITAL PROJECTS ORDINANCE FUND
From Inception and for the Year Ended June 30, 2015

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Restricted intergovernmental	\$ 1,405,063	\$ -	\$ -	\$ -	\$ (1,405,063)
Investment earnings	-	115	17	132	132
Total revenues	<u>1,405,063</u>	<u>115</u>	<u>17</u>	<u>132</u>	<u>(1,404,931)</u>
Expenditures:					
Cultural and recreational:					
Other operating expenditures	260,963	129,989	7,600	137,589	123,374
Capital outlay	<u>1,378,906</u>	<u>1,800</u>	<u>-</u>	<u>1,800</u>	<u>1,377,106</u>
Total expenditures	<u>1,639,869</u>	<u>131,789</u>	<u>7,600</u>	<u>139,389</u>	<u>1,500,480</u>
Revenues under expenditures	<u>(234,806)</u>	<u>(131,674)</u>	<u>(7,583)</u>	<u>(139,257)</u>	<u>95,549</u>
Other financing sources (uses):					
Transfers in:					
General Fund	338,806	338,806	-	338,806	-
Transfers out:					
General Fund	<u>(104,000)</u>	<u>(104,000)</u>	<u>-</u>	<u>(104,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>234,806</u>	<u>234,806</u>	<u>-</u>	<u>234,806</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 103,132</u>	<u>(7,583)</u>	<u>\$ 95,549</u>	<u>\$ 95,549</u>
Fund balance, beginning			<u>103,132</u>		
Fund balance, ending			<u>\$ 95,549</u>		

**TOWN OF KERNERSVILLE, NORTH CAROLINA
STORMWATER ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2015**

Schedule 12

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services	\$ -	\$ 1,011,196	\$ -
Investment earnings	-	121	-
Total revenues	\$ 1,055,472	1,011,317	\$ (44,155)
Expenditures:			
Personnel services	-	184,987	-
Operating and maintenance	-	215,920	-
Capital outlay	-	648,827	-
Debt service:			
Principal retirement	-	45,143	-
Interest and other charges	-	919	-
Total expenditures	1,230,141	1,095,796	134,345
Revenues under expenditures	(174,669)	(84,479)	90,190
Other financing sources (uses):			
Transfers in:			
General Fund	216,579	216,579	-
Transfers out:			
General Fund	(501,910)	(501,910)	-
Installment purchase obligations issued	225,000	224,081	919
Total other financing sources (uses)	(60,331)	(61,250)	(919)
Revenues and other sources under expenditures and other uses	(235,000)	(145,729)	89,271
Appropriated fund balance	235,000	-	(235,000)
Revenues, other sources and appropriated fund balance under expenditures and other uses	\$ -	(145,729)	\$ (145,729)

**TOWN OF KERNERSVILLE, NORTH CAROLINA
 STORMWATER ENTERPRISE FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (NON-GAAP)
 For the Year Ended June 30, 2015**

Schedule 12
 (Continued)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		\$ 648,827	
Principal retirement		45,143	
Installment purchase obligations issued		(224,081)	
Depreciation		(40,448)	
Increase in accrued interest payable		(1,683)	
Decrease in accrued vacation pay		15,295	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		15,962	
Pension expense		(740)	
Total reconciling items		<u>458,275</u>	
Change in net position		<u>\$ 312,546</u>	

**TOWN OF KERNERSVILLE, NORTH CAROLINA
WORKERS' COMP SELF-INSURANCE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
FINANCIAL PLAN AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2015**

Schedule 13

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 610,723	\$ 610,723	\$ -
Nonoperating revenues:			
Investment earnings	<u>100</u>	<u>21</u>	<u>(79)</u>
Total revenues	<u>610,823</u>	<u>610,744</u>	<u>(79)</u>
Expenditures:			
Claims paid	-	406,469	-
Stop-loss coverage	-	60,096	-
Administration	<u>-</u>	<u>7,500</u>	<u>-</u>
Total expenditures	<u>610,823</u>	<u>474,065</u>	<u>136,758</u>
Revenues over expenditures	<u>\$ -</u>	136,679	<u>\$ 136,679</u>
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Reduction to claims reserve		<u>227,794</u>	
Change in net position		<u>\$ 364,473</u>	

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SUPPLEMENTARY INFORMATION:

OTHER SCHEDULES

This section contains additional information on property taxes.

- **Schedule of Ad Valorem Taxes Receivable**
- **Analysis of Current Tax Levy**

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TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2015

Schedule 14

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2014</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2015</u>
2014-15	\$ -	\$ 13,820,404	\$ 13,730,922	\$ 89,482
2013-14	168,290	-	91,627	76,663
2012-13	68,350	-	20,432	47,918
2011-12	82,993	-	12,547	70,446
2010-11	73,552	-	29,291	44,261
2009-10	38,391	-	9,892	28,499
2008-09	30,372	-	194	30,178
2007-08	8,060	-	192	7,868
2006-07	6,905	-	122	6,783
2005-06	10,404	-	117	10,287
2004-05	8,488	-	8,488	-
	<u>\$ 495,805</u>	<u>\$ 13,820,404</u>	<u>\$ 13,903,824</u>	412,385

Less allowance for uncollectible accounts:
 General Fund

(73,000)

\$ 339,385

Reconciliation of collections and credits with revenues:

Ad valorem taxes - General Fund	\$ 13,528,449
Local vehicle taxes and fees - General Fund	105,369
Recycling revenue - General Fund	209,295
Refunds	5,788
Releases and other adjustments	46,435
Amounts written off for tax year 2004-2005 per statute of limitations	<u>8,488</u>
	<u>\$ 13,903,824</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2015

Schedule 15

	Town-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	\$ 2,421,201,106	0.5425	\$ 13,135,016	\$ 12,046,866	\$ 1,088,150
Discoveries:					
Current year taxes	80,511,705	0.5425	<u>436,776</u>	<u>436,776</u>	<u>-</u>
Total gross levy			13,571,792	12,483,642	1,088,150
Recycling fees	-		209,606	209,606	-
Vehicle tag fees	<u>-</u>		<u>102,495</u>	<u>2,700</u>	<u>99,795</u>
Total property valuation	<u>\$ 2,501,712,811</u>				
Total levy			13,883,893	12,695,948	1,187,945
Less releases and deductions			<u>(63,489)</u>	<u>(58,123)</u>	<u>(5,366)</u>
Net levy			13,820,404	12,637,825	1,182,579
Uncollected taxes at June 30, 2015			<u>(89,482)</u>	<u>(89,482)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 13,730,922</u>	<u>\$ 12,548,343</u>	<u>\$ 1,182,579</u>
Current levy collection percentage			<u>99.35%</u>	<u>99.29%</u>	<u>100.00%</u>

SUPPLEMENTARY INFORMATION:
STATISTICAL SECTION

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This part of the Town of Kernersville's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the Town's overall financial health.

<u>CONTENTS</u>	<u>PAGE</u>
FINANCIAL TRENDS INFORMATION - these schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	116
REVENUE CAPACITY INFORMATION - these schedules contain information to help the reader assess the Town's most significant local revenue sources, property taxes and water and sewer charges.	122
DEBT CAPACITY INFORMATION - these schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.	128
DEMOGRAPHIC AND ECONOMIC INFORMATION - these schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.	133
OPERATING INFORMATION - these schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.	137

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

Financial Trends Information

TOWN OF KERNERSVILLE, NORTH CAROLINA
NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)

Table 1

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental activities										
Net investment in capital assets	\$ 113,593,853	\$ 118,273,491	\$ 124,714,812	\$ 124,490,834	\$ 123,530,664	\$ 124,206,117	\$ 122,184,493	\$ 119,209,937	\$ 120,711,678	\$ 120,138,675
Restricted	-	-	-	-	-	1,687,385	2,450,611	1,618,871	2,405,379	2,612,352
Unrestricted	3,777,736	4,041,505	6,243,831	4,638,537	3,231,105	1,293,180	(1,300,310)	733,451	(2,935,846)	(2,382,398)
Total governmental activities net position	117,371,589	122,314,996	130,958,643	129,129,371	126,761,769	127,186,682	123,334,794	121,562,259	120,181,211	120,368,629
Business-type activities										
Net investment in capital assets	-	213,400	238,677	330,429	321,492	304,776	229,098	238,723	213,296	642,737
Unrestricted	-	158,751	546,588	494,794	435,601	503,485	749,343	901,352	1,136,080	1,019,185
Total business-type activities net position	-	372,151	785,265	825,223	757,093	808,261	978,441	1,140,075	1,349,376	1,661,922
Primary government										
Net investment in capital assets	113,593,853	118,486,891	124,953,489	124,821,263	123,852,156	124,510,893	122,413,591	119,448,660	120,924,974	120,781,412
Restricted	-	-	-	-	-	1,687,385	2,450,611	1,618,871	2,405,379	2,612,352
Unrestricted	3,777,736	4,200,256	6,790,419	5,133,331	3,666,706	1,796,665	(550,967)	1,634,803	(1,799,766)	(1,363,213)
Total primary government net position	\$ 117,371,589	\$ 122,687,147	\$ 131,743,908	\$ 129,954,594	\$ 127,518,862	\$ 127,994,943	\$ 124,313,235	\$ 122,702,334	\$ 121,530,587	\$ 122,030,551

Source: Statement of Net Position (Exhibit 1 in Basic Financial Statements)

TOWN OF KERNERSVILLE, NORTH CAROLINA
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)

Table 2
Page 1 of 2

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses										
Governmental activities:										
General government	\$ 2,220,028	\$ 3,981,548	\$ 2,651,806	\$ 2,892,008	\$ 2,956,581	\$ 2,851,088	\$ 4,139,013	\$ 4,168,945	\$ 3,494,897	\$ 3,629,864
Public safety	10,309,964	8,461,213	10,108,426	11,232,997	12,362,244	11,892,407	12,774,638	11,782,579	13,008,107	12,661,556
Public service	9,982,340	6,102,388	8,748,345	10,566,004	8,460,438	8,420,247	8,087,763	8,575,454	8,187,772	7,656,776
Cultural and recreation	1,122,586	1,277,981	1,224,228	1,288,066	1,306,327	1,455,623	1,544,984	1,606,921	1,603,499	1,958,985
Interest on long-term debt	707,314	691,913	620,311	584,278	494,302	448,776	396,651	377,849	354,509	303,089
Total governmental activities expenses	<u>24,342,232</u>	<u>20,515,043</u>	<u>23,353,116</u>	<u>26,563,353</u>	<u>25,579,892</u>	<u>25,068,141</u>	<u>26,943,049</u>	<u>26,511,748</u>	<u>26,648,784</u>	<u>26,210,270</u>
Business-type activities:										
Stormwater management	-	505,780	453,687	641,403	740,532	615,230	659,424	695,750	627,722	413,440
Total business-type activities expenses	<u>-</u>	<u>505,780</u>	<u>453,687</u>	<u>641,403</u>	<u>740,532</u>	<u>615,230</u>	<u>659,424</u>	<u>695,750</u>	<u>627,722</u>	<u>413,440</u>
Total primary government expenses	<u>24,342,232</u>	<u>21,020,823</u>	<u>23,806,803</u>	<u>27,204,756</u>	<u>26,320,424</u>	<u>25,683,371</u>	<u>27,602,473</u>	<u>27,207,498</u>	<u>27,276,506</u>	<u>26,623,710</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	189,589	318,664	110,324	236,157	190,051	238,988	251,053	335,490	435,885	411,302
Public safety	167,410	127,399	231,401	223,562	272,264	234,847	167,073	157,045	126,997	97,262
Public service	1,080,771	1,066,985	1,415,265	1,328,114	1,133,576	1,208,031	1,433,066	1,467,440	1,526,801	1,550,923
Cultural and recreation	245,795	168,752	290,617	243,012	259,428	284,283	267,114	282,126	308,777	382,647
Operating grants and contributions	1,180,247	1,488,885	1,797,274	1,589,830	1,770,876	1,888,145	2,871,690	2,930,324	2,324,088	1,805,122
Capital grants and contributions	6,872,024	4,328,734	7,891,645	1,857,585	429,109	2,145,173	248,058	162,253	3,070,242	1,349,246
Total governmental activities program revenues	<u>9,735,836</u>	<u>7,499,419</u>	<u>11,736,526</u>	<u>5,478,260</u>	<u>4,055,304</u>	<u>5,999,467</u>	<u>5,238,054</u>	<u>5,334,678</u>	<u>7,792,790</u>	<u>5,596,502</u>
Business-type activities:										
Charges for services:	-	887,040	919,345	934,110	946,303	955,981	1,006,712	988,820	1,013,509	1,011,196
Capital grants and contributions	-	32,279	-	-	9,028	-	-	-	-	-
Total business-type activities program revenues	<u>-</u>	<u>919,319</u>	<u>919,345</u>	<u>934,110</u>	<u>955,331</u>	<u>955,981</u>	<u>1,006,712</u>	<u>988,820</u>	<u>1,013,509</u>	<u>1,011,196</u>
Total primary government program revenues	<u>9,735,836</u>	<u>8,418,738</u>	<u>12,655,871</u>	<u>6,412,370</u>	<u>5,010,635</u>	<u>6,955,448</u>	<u>6,244,766</u>	<u>6,323,498</u>	<u>8,806,299</u>	<u>6,607,698</u>
Net Revenue (Expenses)	<u>\$ (14,606,396)</u>	<u>\$ (12,602,085)</u>	<u>\$ (11,150,932)</u>	<u>\$ (20,792,386)</u>	<u>\$ (21,309,789)</u>	<u>\$ (18,727,923)</u>	<u>\$ (21,357,707)</u>	<u>\$ (20,884,000)</u>	<u>\$ (18,470,207)</u>	<u>\$ (20,016,012)</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)

Table 2
Page 2 of 2

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General revenues and other changes in net position										
Governmental activities:										
Taxes										
Property taxes	\$ 10,551,391	\$ 11,563,965	\$ 12,276,712	\$ 12,587,826	\$ 12,741,009	\$ 12,817,420	\$ 12,696,485	\$ 12,883,905	\$ 13,097,529	\$ 13,493,647
Other taxes	607,479	917,167	339,268	228,614	229,200	232,061	246,837	247,477	218,755	238,417
Unrestricted intergovernmental revenue	5,493,952	5,327,277	6,477,866	5,792,713	5,810,076	5,993,815	6,200,440	6,194,669	6,036,044	6,606,027
Investments earnings, unrestricted	471,781	706,151	545,258	200,302	49,505	22,952	16,355	12,787	8,218	7,179
Transfers in (out)	-	58,311	68,847	263,845	283,845	290,330	177,330	131,789	135,102	285,331
Gain (loss) on disposal of capital assets	-	-	422,635	-	(23,524)	38,642	(1,581,296)	(115,866)	3,203	111,089
Miscellaneous	5,571	175,828	129,651	182,521	66,875	98,367	96,956	49,774	8,283	59,496
Total governmental activities	<u>17,130,174</u>	<u>18,748,699</u>	<u>20,260,237</u>	<u>19,255,821</u>	<u>19,156,986</u>	<u>19,493,587</u>	<u>17,853,107</u>	<u>19,404,535</u>	<u>19,507,134</u>	<u>20,801,186</u>
Business-type activities:										
Investments earnings, unrestricted	-	16,924	16,299	11,096	916	747	222	353	90	121
Transfers in (out)	-	(58,311)	(68,847)	(263,845)	(283,845)	(290,330)	(177,330)	(131,789)	(135,102)	(285,331)
Miscellaneous	-	-	4	-	-	-	-	-	-	-
Total business-type activities	<u>-</u>	<u>(41,387)</u>	<u>(52,544)</u>	<u>(252,749)</u>	<u>(282,929)</u>	<u>(289,583)</u>	<u>(177,108)</u>	<u>(131,436)</u>	<u>(135,012)</u>	<u>(285,210)</u>
Total primary government program revenues	<u>17,130,174</u>	<u>18,707,312</u>	<u>20,207,693</u>	<u>19,003,072</u>	<u>18,874,057</u>	<u>19,204,004</u>	<u>17,675,999</u>	<u>19,273,099</u>	<u>19,372,122</u>	<u>20,515,976</u>
Change in net position										
Governmental activities	2,523,778	5,733,075	8,643,647	(1,829,272)	(2,367,602)	424,913	(3,851,888)	(1,772,535)	651,140	187,418
Business activities	-	372,152	413,114	39,958	(68,130)	51,168	170,180	161,634	250,775	312,546
Total primary government change in net position	<u>\$ 2,523,778</u>	<u>\$ 6,105,227</u>	<u>\$ 9,056,761</u>	<u>\$ (1,789,314)</u>	<u>\$ (2,435,732)</u>	<u>\$ 476,081</u>	<u>\$ (3,681,708)</u>	<u>\$ (1,610,901)</u>	<u>\$ 901,915</u>	<u>\$ 499,964</u>

Source: Statement of Activities (Exhibit 2 in Basic Financial Statements)

TOWN OF KERNERSVILLE, NORTH CAROLINA
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 3

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Fund										
Reserved	\$ 2,514,747	\$ 1,782,385	\$ 1,843,203	\$ 1,685,444	\$ 1,745,510	N/A	N/A	N/A	N/A	N/A
Unreserved	5,094,836	5,859,677	8,032,164	7,711,465	7,214,136	N/A	N/A	N/A	N/A	N/A
Non-spendable	N/A	N/A	N/A	N/A	N/A	\$ 22,917	\$ 14,490	\$ 16,479	\$ 222,957	\$ 5,250
Restricted	N/A	N/A	N/A	N/A	N/A	1,588,285	2,939,846	2,171,712	2,043,075	2,227,084
Committed	N/A	N/A	N/A	N/A	N/A	147,933	625,097	1,120,723	821,040	684,526
Assigned	N/A	N/A	N/A	N/A	N/A	302,337	500,654	397,654	226,126	253,144
Unassigned	N/A	N/A	N/A	N/A	N/A	7,034,981	5,619,305	7,733,398	7,178,931	8,348,194
Total general fund	<u>7,609,583</u>	<u>7,642,062</u>	<u>9,875,367</u>	<u>9,396,909</u>	<u>8,959,646</u>	<u>9,096,453</u>	<u>9,699,392</u>	<u>11,439,966</u>	<u>10,492,129</u>	<u>11,518,198</u>
All other governmental funds										
Reserved	628,635	36,154	38,724	219,342	144,729	N/A	N/A	N/A	N/A	N/A
Unreserved, reported in:										
Special revenue funds	1,540,238	1,067,588	666,922	639,156	342,578	N/A	N/A	N/A	N/A	N/A
Capital projects funds	2,677,188	3,811,937	4,222,041	2,723,237	2,190,716	N/A	N/A	N/A	N/A	N/A
Restricted	N/A	N/A	N/A	N/A	N/A	429,216	200,460	258,598	362,304	385,268
Committed	N/A	N/A	N/A	N/A	N/A	1,766,051	798,805	719,729	658,824	651,339
Assigned	N/A	N/A	N/A	N/A	N/A	119,429	338,229	277,892	-	-
Total all other governmental funds	<u>4,846,061</u>	<u>4,915,679</u>	<u>4,927,687</u>	<u>3,581,735</u>	<u>2,678,023</u>	<u>2,314,696</u>	<u>1,337,494</u>	<u>1,256,219</u>	<u>1,021,128</u>	<u>1,036,607</u>
Total fund balance	<u>\$ 12,455,644</u>	<u>\$ 12,557,741</u>	<u>\$ 14,803,054</u>	<u>\$ 12,978,644</u>	<u>\$ 11,637,669</u>	<u>\$ 11,411,149</u>	<u>\$ 11,036,886</u>	<u>\$ 12,696,185</u>	<u>\$ 11,513,257</u>	<u>\$ 12,554,805</u>

N/A - Not applicable prior to and subsequent to the implementation of GASB Statement No. 54.

Source: Balance Sheet - Governmental Funds (Exhibit 3 in Basic Financial Statements)

TOWN OF KERNERSVILLE, NORTH CAROLINA
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 4

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues by Source										
Ad valorem taxes	\$ 10,586,204	\$ 11,570,532	\$ 12,108,386	\$ 12,521,037	\$ 12,550,214	\$ 12,642,432	\$ 12,687,750	\$ 12,885,047	\$ 13,151,903	\$ 13,528,449
Other taxes and licenses	607,479	560,279	339,268	228,614	229,200	232,061	246,837	247,477	218,755	238,417
Unrestricted intergovernmental	5,493,952	6,029,846	6,477,866	5,792,713	5,810,076	5,993,815	6,200,440	6,194,669	6,036,044	6,606,027
Restricted intergovernmental	3,018,243	1,857,533	1,760,831	2,002,952	936,279	1,086,336	1,926,452	1,928,177	1,045,699	1,862,253
Penalties and interest	504,173	676,364	584,913	230,393	106,130	90,490	35,242	58,630	16,949	60,236
Contributions and donations	175,618	133,806	801,167	814,931	828,882	883,787	889,458	1,002,147	854,417	940,041
Other revenues	1,722,565	175,828	705,381	278,612	204,547	201,349	216,806	49,990	8,283	59,496
Functionally related revenues	252,232	1,630,892	2,001,435	1,940,009	1,768,038	1,894,698	2,054,306	2,242,101	2,398,460	2,442,134
Total revenues	<u>22,360,466</u>	<u>22,635,080</u>	<u>24,779,247</u>	<u>23,809,261</u>	<u>22,433,366</u>	<u>23,024,968</u>	<u>24,257,291</u>	<u>24,608,238</u>	<u>23,730,510</u>	<u>25,737,053</u>
Expenditures by Function										
General government	2,125,130	2,090,748	2,350,399	2,563,180	2,640,872	2,772,127	4,462,355	3,189,818	3,824,056	4,207,196
Public safety	9,122,834	9,666,545	9,781,588	10,868,418	11,506,087	11,503,502	11,613,615	11,688,938	12,547,679	12,509,496
Public service	9,086,356	7,101,508	7,911,537	9,043,625	6,243,526	6,142,344	6,423,007	6,679,349	6,638,214	6,607,747
Cultural and recreation	1,232,275	1,293,072	1,184,349	1,013,620	1,184,167	1,258,562	1,351,629	1,465,046	1,364,430	1,799,026
Debt service										
Principal retirement	2,003,590	2,121,298	2,509,023	2,403,066	2,349,438	2,052,936	1,865,247	1,703,026	1,753,280	1,813,855
Interest and fiscal charges	664,668	691,913	731,654	593,917	530,396	458,547	401,301	367,301	345,661	257,074
Bond issuance costs	-	-	-	-	-	-	-	-	-	65,000
Total expenditures	<u>24,234,853</u>	<u>22,965,084</u>	<u>24,468,550</u>	<u>26,485,826</u>	<u>24,454,486</u>	<u>24,188,018</u>	<u>26,117,154</u>	<u>25,093,478</u>	<u>26,473,320</u>	<u>27,259,394</u>
Excess of revenue over (under) expenditures	<u>(1,874,387)</u>	<u>(330,004)</u>	<u>310,697</u>	<u>(2,676,565)</u>	<u>(2,021,120)</u>	<u>(1,163,050)</u>	<u>(1,859,863)</u>	<u>(485,240)</u>	<u>(2,742,810)</u>	<u>(1,522,341)</u>
Other Financing Sources (Uses)										
Proceeds from installment purchases	1,752,750	1,396,571	1,579,047	588,310	396,300	646,200	1,383,000	1,905,500	1,364,750	2,102,469
Issuance of debt-loan	863,684	-	-	-	-	-	-	-	-	-
Refunding bonds issued	-	-	-	-	-	-	-	-	-	4,065,000
Debt service - principal	-	-	-	-	-	-	-	-	-	(4,000,000)
CCUC debt reimbursement	610,308	-	-	-	-	-	-	-	-	-
Prior escrow proceeds	438,718	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	107,250	60,030	111,089
Transfers in	2,612,448	2,047,451	2,292,951	1,855,396	2,310,635	2,315,206	2,049,154	510,370	768,594	745,701
Transfers out	(2,627,078)	(2,181,921)	(1,937,387)	(1,591,551)	(2,026,790)	(2,024,876)	(1,946,554)	(378,581)	(633,492)	(460,370)
Total other financing sources	<u>3,650,830</u>	<u>1,262,101</u>	<u>1,934,611</u>	<u>852,155</u>	<u>680,145</u>	<u>936,530</u>	<u>1,485,600</u>	<u>2,144,539</u>	<u>1,559,882</u>	<u>2,563,889</u>
Net change in fund balances	<u>\$ 1,776,443</u>	<u>\$ 932,097</u>	<u>\$ 2,245,308</u>	<u>\$ (1,824,410)</u>	<u>\$ (1,340,975)</u>	<u>\$ (226,520)</u>	<u>\$ (374,263)</u>	<u>\$ 1,659,299</u>	<u>\$ (1,182,928)</u>	<u>\$ 1,041,548</u>
Capital outlay included in total expenditures	<u>\$ 1,906,176</u>	<u>\$ 2,785,324</u>	<u>\$ 1,857,645</u>	<u>\$ 1,745,367</u>	<u>\$ 781,480</u>	<u>\$ 1,000,053</u>	<u>\$ 2,177,625</u>	<u>\$ 1,168,080</u>	<u>\$ 2,768,218</u>	<u>\$ 2,172,524</u>
Debt service as a percentage of noncapital expenditures	11.9%	13.9%	14.3%	12.1%	12.2%	10.8%	9.5%	8.7%	8.9%	8.3%

Source: Changes in Fund Balances - Governmental Funds (Exhibit 4 in Basic Financial Statements)

Revenue Capacity Information

TOWN OF KERNERSVILLE, NORTH CAROLINA
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 5

<u>Fiscal Year</u>	<u>Ad Valorem Property Tax^a</u>	<u>Local Option Sales & Use Tax</u>	<u>Utilities Franchise and Sales Tax^b</u>	<u>Hotel/Motel Occupancy Tax</u>	<u>Alcoholic Beverage Tax^c</u>
2006	\$ 10,586,204	\$ 3,464,030	\$ 910,177	\$ 86,356	\$ 323,151
2007	11,570,532	3,891,135	1,093,635	90,887	327,516
2008	12,108,386	4,173,033	1,299,282	92,473	315,704
2009	12,521,037	3,484,244	1,329,357	86,315	326,407
2010	12,550,214	3,462,757	1,409,283	89,538	241,991
2011	12,642,432	3,490,607	1,406,583	85,142	306,317
2012	12,687,750	3,726,298	1,397,145	94,641	353,031
2013	12,885,047	3,702,977	1,424,476	95,952	363,487
2014	13,151,903	3,751,318	1,479,625	106,656	398,872
2015	13,528,449	4,239,410	1,830,850	113,742	452,601
Change from 2006 to 2015	27.8%	22.4%	101.2%	31.7%	40.1%

^a Ad valorem property taxes are the Town's most significant source of revenues. All other taxes and revenues are either comparatively insignificant or levied by a governmental entity other than the Town of Kernersville. Property tax increase is due to continued real property value growth and continued diligence in the collection of property taxes. This year's collection rate was 99.35%.

^b Includes taxes on piped natural gas, electricity, telecommunication services and video programming.

^c The Alcoholic Beverage Tax includes distributions from both the State and Forsyth County.

TOWN OF KERNERSVILLE, NORTH CAROLINA
DIRECT AND OVERLAPPING PROPERTY TAX RATES
Last Ten Fiscal Years
(rate per \$100 of assessed value)

Table 6

Fiscal Year	Town Direct Rates			Forsyth County ^b	Guilford County ^{b,c}
	Basic Rate	General Obligation Streets Debt Service ^a	Total Direct		
2006	0.4750	0.05	0.5250	0.6660	-
2007	0.5000	0.05	0.5500	0.6660	-
2008	0.5000	0.05	0.5500	0.6960	-
2009	0.5000	0.05	0.5500	0.6740	0.7374
2010	0.4475	0.05	0.4975	0.6740	0.7374
2011	0.4475	0.05	0.4975	0.6740	0.7374
2012	0.4475	0.05	0.4975	0.6740	0.7824
2013	0.4475	0.05	0.4975	0.6740	0.7804
2014	0.4775	0.05	0.5275	0.6787	0.7700
2015	0.4925	0.05	0.5425	0.7168	0.7700

Source: Forsyth County Tax Office and Guilford County Tax Office

Note: As approved by the citizens of Kernersville in the Bond Referendum held in the November General Election of 1998, the Town has established a special assessment equal to five cents on the tax rate in order to retire the debt generated by the sale of long-term street bonds sold on May 4, 2004. These street bonds were subsequently refunded on July 29, 2014 upon issuance of the new general obligation bond funding.

The Town's basic property tax rate may be increased only by a majority vote of the Town's Board of Aldermen.

Note: Rates for debt service are set based on each year's requirements.

^a A separate debt service fund has not been established, but revenues equal to five cents on the tax rate are used each year to pay the annual bond debt.

^b Overlapping rates are those of local and county governments that apply to property owners within the Town of Kernersville.

^c In 2009, the Town expanded into Guilford County under an annexation agreement

**TOWN OF KERNERSVILLE, NORTH CAROLINA
PRINCIPAL PROPERTY TAXPAYERS
Current Year and Nine Years Ago**

Table 7

<u>Taxpayer</u>	<u>2015</u>			<u>2006</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Town Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Town Taxable Assessed Value</u>
Deere-Hitachi Mfg. Corp.	\$ 95,798,359	1	3.83%	\$ 19,816,860	3	0.97%
Hawthorne at Main	30,655,294	2	1.23%	41,426,626	1	2.03%
DLS Kernersville, LLC	21,548,712	3	0.86%	21,076,700	2	1.03%
Boma North Carolina, LLC	21,338,101	4	0.85%			
Grass America, Inc.	20,772,173	5	0.83%	15,639,340	5	0.77%
Wal-Mart Real Estate Bus. Trst	19,682,300	6	0.79%	15,815,299	4	0.77%
L E Pope Companies, Inc.	18,474,700	7	0.74%	13,892,000	6	0.68%
Duke Energy Corp	17,239,744	8	0.69%	11,542,244	10	0.57%
Pope LE Bldg. Co. Inc	16,612,865	9	0.66%	13,892,000	7	0.68%
Kernersville Bowling Center Inc	16,158,330	10	0.65%			
Sepia, Inc. d/b/a Dudley Products				13,047,235	8	0.64%
Roadway Express Inc.				12,832,589	9	0.63%
	<u>\$ 278,280,578</u>		<u>11.12%</u>	<u>\$ 178,980,893</u>		<u>8.77%</u>

Source: Forsyth County Tax Office

**TOWN OF KERNERSVILLE, NORTH CAROLINA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years**

Table 8

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2006	\$ 10,881,856	\$ 10,694,040	98.27%	\$ 177,529	\$ 10,871,569	99.91%
2007	11,875,246	11,699,663	98.52%	168,800	11,868,463	99.94%
2008	12,486,971	12,292,288	98.44%	186,815	12,479,103	99.94%
2009	12,901,217	12,666,973	98.18%	204,066	12,871,039	99.77%
2010	13,044,986	12,748,806	97.73%	267,681	13,016,487	99.78%
2011	13,216,546	12,881,345	97.46%	290,940	13,172,285	99.67%
2012	13,048,827	12,755,708	97.75%	222,673	12,978,381	99.46%
2013	13,178,975	12,953,063	98.29%	177,994	13,131,057	99.64%
2014	13,538,090	13,369,800	98.76%	91,627	13,461,427	99.43%
2015	13,820,404	13,730,922	99.35%	-	13,730,922	99.35%

Sources: Forsyth County and Guilford County Tax Offices

TOWN OF KERNERSVILLE, NORTH CAROLINA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Table 9

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Public Service Companies Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2006	\$ 899,129,900	\$ 518,542,100	\$ 212,081,260	\$ 34,043,883	\$ 6,680,600	\$ 1,657,116,543	0.5250	\$ 1,824,445,645	90.83%
2007	933,915,850	539,076,760	208,905,340	40,005,450	7,017,000	1,714,886,400	0.5500	2,040,819,236	84.03%
2008	965,048,470	578,761,960	215,866,050	42,738,740	7,017,000	1,795,398,220	0.5500	2,127,437,022	84.39%
2009	1,071,923,982	649,891,522	22,817,874	42,235,983	10,741,776	1,776,127,585	0.5500	2,228,066,118	79.72%
2010	1,366,205,630	669,160,371	66,381,566	44,319,081	12,774,988	2,133,291,660	0.4975	2,298,013,998	92.83%
2011	1,378,909,152	624,082,003	74,881,666	49,694,428	13,050,510	2,114,516,739	0.4975	2,621,589,607	80.66%
2012	1,379,732,482	607,007,003	64,306,520	45,617,523	14,560,840	2,082,102,688	0.4975	2,571,394,840	80.97%
2013	1,369,830,089	613,351,703	93,149,696	48,352,263	34,740,649	2,089,943,102	0.4975	2,600,402,211	80.37%
2014	1,245,558,247	542,639,948	83,699,860	38,060,695	32,354,749	1,877,604,001	0.5275	2,550,261,901	73.62%
2015	1,551,270,046	522,712,586	149,963,590	53,157,539	44,872,741	2,232,231,020	0.5425	2,501,712,811	89.23%

Source: Forsyth County Tax Assessor's Office TR-1 Report. & Guilford County Tax Assessor's TR-1 Report

Note: Property in Forsyth County is reassessed once every four years. Property in Guilford County is reassessed once every eight years.

Total Taxable Assessed Value includes: all residential, commercial and industrial real property, public service company property less tax-exempt property (no vehicles or personal property included).

Actual Taxable Value includes: all Total Taxable Assessed Value plus registered motor vehicles, personal property and discoveries, net of releases.

Debt Capacity Information

TOWN OF KERNERSVILLE, NORTH CAROLINA
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Table 10

Fiscal Year	Governmental Activities			Business-Type Activities	Total Primary Government	Percentage of County Personal Income	Per Capita ^a
	General Obligation Bonds	State Revolving Loan	Installment Purchases	Installment Purchases			
2006	\$ 6,800,000	\$ 7,600,000	\$ 5,016,524	\$ -	\$ 19,416,524	172.01%	\$ 905
2007	6,700,000	7,200,000	4,713,122	43,398	18,656,520	156.87%	913
2008	6,350,000	6,800,000	4,533,147	6,818	17,689,965	139.34%	861
2009	6,000,000	6,400,000	3,468,391	147,111	16,015,502	120.97%	806
2010	5,600,000	6,000,000	2,315,253	109,410	14,024,663	n/a	716
2011	5,200,000	5,600,000	1,708,517	74,079	12,582,596	n/a	610
2012	4,800,000	5,200,000	2,026,270	37,621	12,063,891	n/a	507
2013	4,400,000	4,800,000	3,028,744	-	12,228,744	n/a	514
2014	4,000,000	4,400,000	3,440,214	-	11,840,214	n/a	494
2015	3,660,000	4,000,000	4,533,828	178,938	12,372,766	n/a	512

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

^a See Table 14 for personal income for Forsyth County and population data for the Town of Kernersville. These ratios are calculated using population for the prior calendar year.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years**

Table 11

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Total</u>	<u>Percentage of G.O. Debt to Actual Taxable Value of Property ^a</u>	<u>Per Capita ^b</u>
2006	\$ 6,800,000	\$ 6,800,000	0.3332%	319.59
2007	6,700,000	6,700,000	0.3149%	309.31
2008	6,350,000	6,350,000	0.2850%	289.15
2009	6,000,000	6,000,000	0.2611%	268.59
2010	5,600,000	5,600,000	0.2136%	243.51
2011	5,200,000	5,200,000	0.1984%	226.12
2012	4,800,000	4,800,000	0.1867%	201.83
2013	4,400,000	4,400,000	0.1692%	184.70
2014	4,000,000	4,000,000	0.1568%	166.49
2015	3,660,000	3,660,000	0.1463%	151.38

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

^a See Table 5 for property value data.

^b See Table 14 for population data.

TOWN OF KERNERSVILLE, NORTH CAROLINA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of June 30, 2015

Table 12

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable^{a & b}</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Forsyth County's general obligation debt	\$ 562,188,347	7.020%	\$ 39,465,622
Town of Kernersville's direct debt			<u>12,372,766</u>
Total direct and overlapping debt			<u><u>\$ 51,838,388</u></u>

^a Source: Forsyth County

^b 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 with is within the County's boundaries and dividing it by each unit's total taxable assessed value. This approach was also used for the Town of Kernersville's other debt.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years**

Table 13

Legal Debt Margin Calculation for Fiscal Year 2015

Assessed value	\$ 2,501,712,811
Debt limit (8% of assessed value)	200,137,025
Debt applicable to limit:	
General obligation bonds	3,660,000
Revolving loan payable	4,000,000
Installment purchases	4,712,766
Total net debt applicable to limit	12,372,766
Legal debt margin	\$ 187,764,259

Fiscal Year

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Debt limit	\$ 163,265,539	\$ 170,194,976	\$ 178,245,289	\$ 183,841,120	\$ 209,725,569	\$ 208,744,800	\$ 205,711,587	\$ 208,032,177	\$ 204,020,952	\$ 200,137,025
Total net debt applicable to limit	18,804,014	19,416,524	18,656,520	17,689,965	16,015,502	14,024,663	12,063,891	12,228,744	11,840,214	12,372,766
Legal debt margin	\$ 144,461,525	\$ 150,778,452	\$ 159,588,769	\$ 166,151,155	\$ 193,710,067	\$ 194,720,137	\$ 193,647,696	\$ 195,803,433	\$ 192,180,738	\$ 187,764,259

Note: Under state finance law, the Town's outstanding general obligation debt should not exceed 8% of total assessed property value.

Demographic and Economic Information

**TOWN OF KERNERSVILLE, NORTH CAROLINA
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Calendar Years**

Table 14

Calendar Year	Population ¹	Forsyth County Personal Income ¹	Per Capita Personal Income ¹	Median Age ¹	School Enrollment ²	Unemployment Rate ³
2006	21,277	\$ 11,707,040	\$ 35,313	37.2	6,740	4.3%
2007	21,661	12,435,483	37,444	37.4	6,635	4.4%
2008	21,961	13,003,878	38,401	37.6	6,759	5.7%
2009	22,368	13,443,142	39,041	37.8	7,049	9.6%
2010	22,997	12,625,034	36,223	36.7	6,924	10.1%
2011	23,199	13,022,068	37,059	37.2	7,020	10.0%
2012	23,782	13,489,313	38,003	37.4	7,839	9.0%
2013	23,823	14,176,253	39,583	37.4	7,746	9.5%
2014	24,025	N/A	N/A	37.5	7,578	7.5%
2015	24,177	N/A	N/A	37.5	10,697 ⁴	5.9%

Note: Personal Income, Per Capita Personal Income, Median Age and Unemployment rates are not available for the Town of Kernersville. Statistics for Forsyth County were used.

¹ Office of State Budget and Management, Information for Forsyth County was used.

² Winston-Salem/Forsyth County School System.

³ Employment Security Commission; Forsyth County rates were used.

⁴ Beginning in calendar year 2015, school enrollment numbers include data from Glenn High School, Sage Elementary, and Union Cross Academy;

**TOWN OF KERNERSVILLE, NORTH CAROLINA
PRINCIPAL EMPLOYERS FOR FORSYTH COUNTY
Current Year and Nine Years Ago**

Table 15

Employer	2015 ¹			2006 ²		
	Number of Employees	Rank	Percentage of Total County Employment	Number of Employees	Rank	Percentage of Total County Employment
Wake Forest University Baptist Medical Center	12,873	1	7.6%	11,440	1	6.9%
Novant Health	8,145	2	4.8%	8,145	2	4.9%
Winston-Salem/Forsyth County School System	6,692	3	3.9%	6,690	3	4.0%
Reynolds American ^b	3,000	4	1.8%	3,800	7	2.3%
Wells Fargo Bank ^a	2,800	5	1.7%	3,970	6	2.4%
City of Winston-Salem	2,660	6	1.6%	2,335	8	1.4%
Hanesbrands, Inc. ^c	2,500	7	1.5%	5,200	4	3.1%
Wake Forest University	2,401	8	1.4%			
BB&T Corporation	2,200	9	1.3%	2,260	9	1.4%
Forsyth County	1,983	10	1.2%	1,900	10	1.1%
National Textiles				4,325	5	2.6%
Total	45,254		26.7%	50,065		30.2%

¹ estimates as of June 2015

² estimates as of June 2006

^a formerly Wachovia Corporation

^b formerly R.J. Reynolds Tobacco Company

^c formerly Sara Lee Personal Products

Sources: Number of employees provided by the Greater Winston-Salem Chamber of Commerce, as reported by individual companies and institutions. County civilian labor force information used to calculate percentage of total employment provided by the North Carolina Employment Security Commission.

TOWN OF KERNERSVILLE, NORTH CAROLINA
FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Table 16

Function/Program	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General government										
Governing body	6	6	6	6	6	6	6	6	6	6
Administration Department	3	4	4	3	3	3	3	3	3	3
Finance	4	4	5	5	5	5	6	6	7	6
Information Technology	1	2	2	3	3	3	3	3	3	3
Planning & Zoning	4	4	4	4	4	4	4	4	4	4
Inspections	7	6	6	6	6	6	5	5	6	5
Personnel	3	3	3	3	3	4	4	4	5	5
General Services	4	3	3	3	3	2	3	3	3	3
Police										
Officers	66	66	68	66	68	68	63	65	67	67
Civilians	18	15	16	19	15	15	20	20	20	20
Fire										
Firefighters and officers	65	67	62	67	68	68	68	70	73	71
Civilians	1	1	1	1	1	1	1	1	1	1
Public Service										
Engineering	2	3	3	3	3	3	2	2	2	3
Street	16	16	15	17	17	17	19	20	17	21
Sanitation	23	25	25	23	23	25	22	22	22	20
Transportation	-	-	-	6	6	6	4	3	2	-
Public Works Administration	9	11	11	6	5	4	4	3	5	5
Central Maintenance	7	7	7	8	7	9	8	9	9	8
Stormwater Enterprise	-	6	6	5	5	5	5	5	5	3
Cultural & Recreation										
Recreation	9	17	17	9	8	8	8	10	9	11
Total	248	266	264	263	259	262	258	264	269	265

Source: Town's Payroll Department

Operating Information

**TOWN OF KERNERSVILLE, NORTH CAROLINA
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years**

Table 17

Function/Program	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Police										
Physical arrests	3,078	2,479	2,744	2,901	850	851	1,077	1,887	1,495	1,943
Parking violations	154	571	602	373	301	180	170	160	59	84
Traffic violations	4,122	3,818	3,514	1,300	3,148	3,211	4,859	4,658	3,735	7,393
Fire										
Emergency responses	1,889	2,378	2,489	2,489	2,587	2,740	2,642	2,798	3,018	2,973
Fires extinguished	95	99	180	180	124	123	83	108	215	136
Inspections	476	902	1,179	1,179	1,088	1,284	1,872	1,755	1,225	932
Refuse collection										
Refuse collected (tons per year)	14,084	15,209	13,962	13,248	13,384	13,283	13,152	12,990	13,408	13,350
Recyclables collected (tons per year)	3,956	4,078	3,483	4,311	4,277	5,878	4,502	4,291	2,123	2,131
Other public works										
Street resurfacing (miles)	1.6	2.5	3.1	1.8	1.6	3.3	-	2.2	3.1	-
Potholes repaired (square yards)	6,585	1,797	1,444	1,654	1,512	1,115	2,969	1,393	1,792	1,496
Parks and recreation										
Athletic field permits issued	29	32	32	32	32	32	32	37	32	54

Sources: Various Town departments

Note: Indicators are not available for the general government function.

TOWN OF KERNERSVILLE, NORTH CAROLINA
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Table 18

Function/Program	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Policemen and officers	66	66	68	66	68	68	63	65	67	67
Annual police calls to which responded	34,507	34,831	36,407	41,136	34,676	37,836	41,880	39,421	36,724	44,940
Annual traffic accidents	1,270	1,447	1,403	1,300	1,242	1,357	1,346	1,309	1,345	1,311
Annual number of arrests (18 years and over)	3,078	2,479	1,744	2,901	1,271	1,202	2,575	1,324	1,170	2,320
Fire										
Stations	4	4	4	4	4	4	4	4	4	4
Firemen and officers	65	67	62	67	68	68	68	70	73	71
Annual fire calls	1,889	2,378	2,489	2,532	2,587	2,740	2,642	2,798	3,018	2,973
Building permits issued	369	349	321	253	215	173	144	237	256	184
Value of building permits issued	\$ 52,767,802	\$ 45,689,811	\$ 55,146,840	\$ 57,883,794	\$ 15,570,649	\$ 10,376,351	\$ 11,464,132	\$ 38,875,388	\$ 135,649,973	\$ 23,931,938
Public services										
Streets (miles)	90.780	91.800	94.272	94.590	94.696	95.288	94.567	94.480	94.868	95.267
Streetlights	2,871	2,885	2,931	3,042	3,098	3,100	3,100	3,106	3,192	3,192
Traffic signals	30	38	38	28	28	28	28	28	33	33
Parks and recreation										
Parks	6	7	7	7	7	7	7	7	9	9
Total acreage of parks	277	289	294	294	294	294	294	294	327	327
Lighted tennis courts	6	6	6	6	6	6	6	6	6	6
Recreation centers	1	1	1	1	1	1	1	1	1	1
Baseball/softball diamonds	3	3	3	3	3	3	3	3	3	3
Soccer fields	5	5	5	5	5	5	5	5	7	11
Joint-Use Agreements										
Joint Use Soccer Fields	-	-	-	-	-	-	-	-	-	4
Joint Use Ball Fields (lit)	-	-	-	-	-	-	-	-	-	7
Fishing and boating lakes										
Owned and operated by the Town	1	2	2	2	2	2	2	2	2	2
Owned and operated by Forsyth County	1	1	1	1	1	1	1	1	1	1

Sources: Various Town Departments

Note: No capital asset indicators are available for the general government function.

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SUPPLEMENTARY INFORMATION:

COMPLIANCE SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Kernersville, North Carolina

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kernersville, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Kernersville's basic financial statements, and have issued our report thereon dated December 9, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Kernersville's 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 Town of Kernersville's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Kernersville's 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 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 over financial reporting 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 financial reporting 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 Town of Kernersville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 noncompliance 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.

Dixon Hughes Goodman LLP

***High Point, North Carolina
December 9, 2015***

**REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT
IMPLEMENTATION ACT**

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Kernersville, North Carolina

Report on Compliance for the Major Federal Program

We have audited the Town of Kernersville, North Carolina's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on the Town of Kernersville's major federal program for the year ended June 30, 2015. The Town of Kernersville's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of the Town of Kernersville's major federal program 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Kernersville's 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 the major federal program. However, our audit does not provide a legal determination of the Town of Kernersville's compliance.

Opinion on the Major Federal Program

In our opinion, the Town of Kernersville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Town of Kernersville 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, we considered the Town of Kernersville's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance for the major federal program, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town'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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency or a combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency or combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**High Point, North Carolina
December 9, 2015**

**REPORT ON COMPLIANCE FOR THE MAJOR STATE PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH APPLICABLE SECTIONS OF OMB CIRCULAR A-133 AND THE
STATE SINGLE AUDIT IMPLEMENTATION ACT**

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Kernersville, North Carolina

Report on Compliance for the Major State Program

We have audited Town of Kernersville, 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 its major state program for the year ended June 30, 2015. The Town of Kernersville's major state program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of the Town of Kernersville's major state program 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; applicable sections of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 Town of Kernersville's 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 the major state program. However, our audit does not provide a legal determination on the Town of Kernersville's compliance.

Opinion on the Major State Program

In our opinion, the Town of Kernersville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Town of Kernersville 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, we considered the Town of Kernersville's internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, 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 Town of Kernersville'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 noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. 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 applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**High Point, North Carolina
December 9, 2015**

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Section 510(a) of Circular A-133? _____ Yes X No

Identification of major federal program(s):

CFDA 20.205 - Surface Transportation Program - Piney Grove Widening

Dollar threshold used to distinguish between Type A and Type B Programs \$300,000

Auditee qualified as a low-risk auditee? _____ Yes X No

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015

Schedule 16
Page 2 of 2

I. Summary of Auditors' Results (Continued)

State Awards

Internal control over major state programs:

- Material weaknesses identified? _____ Yes X No

- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditors' report issued on compliance for major state programs: Unmodified

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

Identification of major state program(s):
 Powell Bill

II. Financial Statement Findings

There were no findings related to the financial statements for the fiscal year ended June 30, 2015.

III. Federal Awards Findings and Questioned Costs

There were no findings related to federal awards for the fiscal year ended June 30, 2015.

IV. State Awards Findings and Questioned Costs

There were no findings related to state awards for the fiscal year ended June 30, 2015.

TOWN OF KERNERSVILLE, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2015

Schedule 17

There were no prior year audit findings.

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2015

Schedule 18

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal (Direct and Pass-through) Expenditures</u>	<u>State Expenditures</u>
Federal grants:				
<u>U.S. Department of Justice</u>				
Direct Programs				
Bullet-Proof Vest Partnership	16.607		\$ 1,620	
Federal Asset Forfeiture Funds	16.000	NC0-340100	95,368	
Organized Crime Drug Enforcement Task Forces	16.000	50CD04984	4,870	
Passed through the N.C. Department of Public Safety				
Governor's Crime Commission Patrol Rifle Replacement #PROJ010627	16.738	2013-DJ-BX-0189	11,109	
Total U.S. Department of Justice			<u>112,967</u>	
<u>U.S. Department of Transportation</u>				
Passed through the N.C. Department of Transportation				
N.C. Governor's Highway Safety Program				
Operation Crash Reconstruct	20.600	PT-15-09-30	5,816	
N.C. GHSP DWI Task Force Year 5	20.601	M2HVE-15-08-07	38,437	
Surface Transportation Program				
Piney Grove Road Widening	20.205	U-5512	333,448	
Passed through the City of Winston-Salem MPO				
Enhanced Mobility of Seniors and Individuals with Disabilities Program (Section 5310)	20.513	14-ED-921	12,812	
Total U.S. Department of Transportation			<u>390,513</u>	
Total assistance - Federal programs			<u>503,480</u>	
State grants:				
<u>N.C. Department of Transportation</u>				
Direct Programs				
Powell Bill				\$ 647,548
Passed through the City of Winston-Salem MPO				
Enhanced Mobility of Seniors and Individuals with Disabilities Program (Section 5310)		14-ED-921		1,602
Total N.C. Department of Transportation				<u>649,150</u>
Total assistance - State programs				<u>649,150</u>
Total assistance			<u>\$ 503,480</u>	<u>\$ 649,150</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTE TO SCHEDULE OF EXPENDITURES
OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2015

Note I - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of the Town of Kernersville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Therefore, some amounts presented in this Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.