

# **Comprehensive Annual Financial Report Year Ended June 30, 2013**

## **Town of Kernersville, North Carolina**



**Dawn H. Morgan, Mayor**

**Dana C. Jones, Mayor Pro-Tem**

**Keith Hooker**

**Irving Neal**

**Tracey H. Shifflette**

**Neal Stockton**

**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**

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### **LIST OF PRINCIPAL OFFICIALS**

#### **Board of Aldermen**

Dawn H. Morgan, Mayor

Dana C. Jones, Mayor Pro-Tem

Keith Hooker

Irving Neal

Tracey H. Shifflette

Neal Stockton

#### **Town Manager**

Curtis L. Swisher

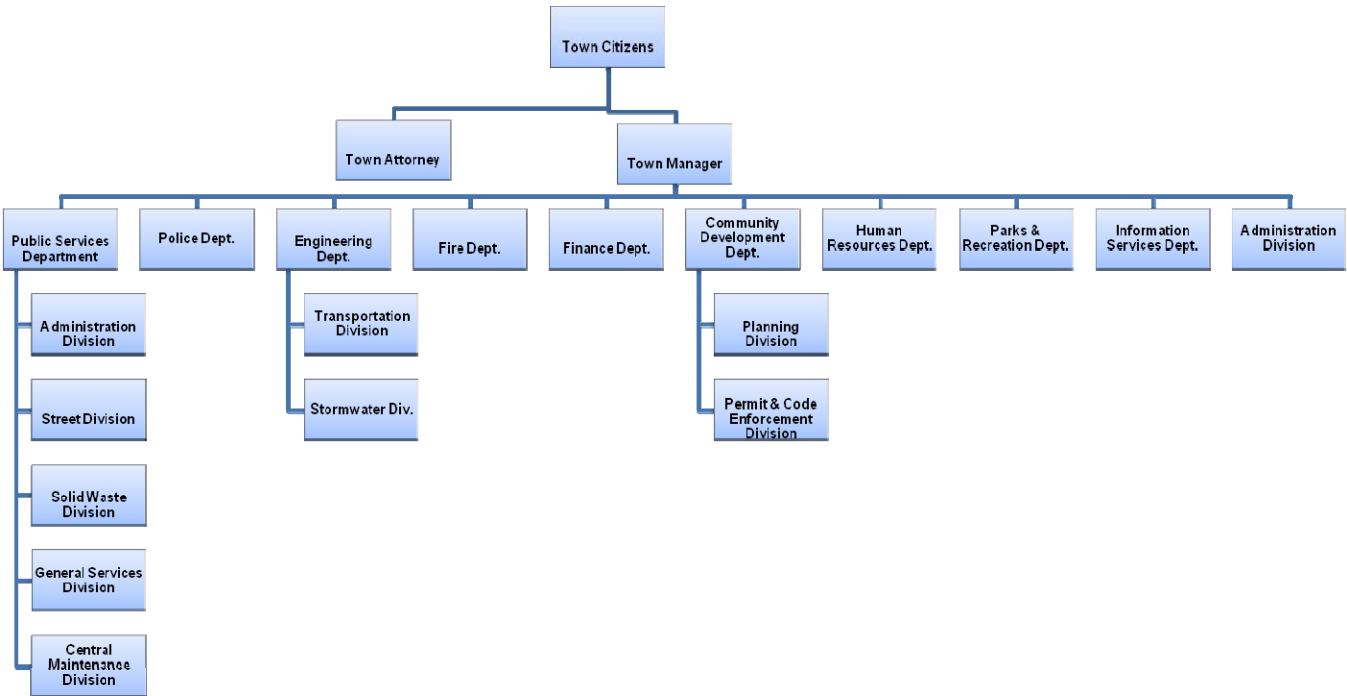
#### **Finance Director**

Franz Ader, PE

# Town of Kernersville, North Carolina

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## ORGANIZATIONAL CHART



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

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

December 11, 2013

## 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, putting it the 52<sup>nd</sup> fastest growing municipality in the state. The Town of Kernersville currently occupies a land area of 17.626 square miles and serves an estimated 2012 population of 23,823.

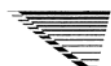
The Town is empowered by the state of North Carolina to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing body. 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

### ALDERMEN

Keith Hooker - Dana Caudill Jones - Irving Neal - Tracey H. Shifflette - Neal Stockton



NORTH CAROLINA'S  
PIEDMONT  
TRIAD

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:**

- Novant's Kernersville Medical Center continues to expand with the completion of a 30,000 square foot medical office building.
- In 2010, the United States Veterans Administration (VA) selected Kernersville for a 370,000 square foot Veterans Administration Health Clinic. Lend Lease was selected by the VA to construct 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, Fed-Ex Ground's 125-acre regional hub distribution facility began expansion to their \$80,000,000 facilities.
- Deere-Hitachi began a nearly 500,000 square foot expansion of their manufacturing complex and corporate headquarters. The expansion will increase their work force of approximately 700 to over 1,000.

As part of the Deere-Hitachi project, NC DOT is also making significant improvements to the intersection of West Mountain Street and Perry Road, which provides primary access to the manufacturing facility.

- The 400-acre mixed-use development "Carrollton" project consists of a 150-acre village center, 75-acre Business Park and 175 acres of residential. Carrollton began construction of a 24,554 2-story office building for the Piedmont Regional Council.

Kernersville is expecting around \$500 million dollars of new industrial, commercial, and residential development as a result of these new opportunities over the next five to ten (10) years, and continues to be a key component of the Piedmont Triad Metropolitan Region's growth.

Some of the most significant Town projects started or completed during the fiscal year 2012-13 include the following:

1. The Union Cross Road project began in May of 2012. It provides roadway improvements by widening Union Cross Road to accommodate a new southbound left-turn lane at the intersection of Glenwood Road and a matching northbound left-turn lane into Laverne Lane. The project was primarily funded by the Surface Transportation Program/Direct Attributable (STP-DA) and with a match from the Town. Completion occurred in the fall of 2012.
2. The Angel Road project also began in May of 2012 and was completed by the end of 2012. This project widened the existing Angel Road from a small gravel road to a wider curb and gutter facility built to industrial street standards.

Other Town projects, either in the planning stages or slated for construction, include the following:

1. The Piney Grove Road project consists of roadway widening to accommodate an additional southbound through-lane at a location north of the intersection with Nelson Street and south to the intersection with North Main Street. The improvements at the North Main/Piney Grove Road intersection were identified as needed when the Kernersville Middle School was constructed. In conjunction with project, STP-DA funding has been obtained for the installation of sidewalk along Piney Grove Road and Nelson Street as well as 80% of the road work. Work began on this project in September 2013.
2. The Kerners Mill Creek Greenway Park is a greenway from Oakhurst Drive to Hopkins Road along the Kerners Mill Creek. A feasibility study was completed in 2010 and final design is begin in the spring of 2012. Construction funding has been obtained for the first phase of the project from Oakhurst Drive to the Kilburn subdivision with STPDA funds. Construction is expected to begin in the spring of 2014.
3. The North Cherry Street Sidewalk project would extend sidewalk proposed on the Piney Grove Road project from the intersection of North Cherry and Piney Grove west over the railroad tracks to connect to existing sidewalk on the other side of the railroad tracks and lead into downtown. Kernersville has elected to fund this project. Construction is anticipated to begin in November 2013.

4. NC DOT has initiated development of construction drawings/plans for substantial improvements to South Main Street and the intersection of South Main Street and Old Winston Road. These roadway improvements should be completed in calendar year 2015.

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 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 also. 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, 2013.

### **The Report**

The Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2013 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, 2013. 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 reviewed and made appropriate tests of data included in the financial statement and evaluated the overall financial statement representation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified (clean) opinion that the financial statements of the Town of Kernersville for the fiscal year ended June 30, 2013 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 grants.

The system of internal accounting 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. This report section summarizes notable statements which the Town has or is in the process of addressing as appropriate.

GASB Statement No. 65 entitled "Items Previously Reported as Assets and Liabilities." This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The purpose of this statement is to improve financial reporting by clarifying the appropriate use of the financial statement elements to ensure financial reporting consistency. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

GASB Statement No. 66 entitled "Technical Corrections- 2012; an amendment of GASB Statements No. 10 and No. 62." The purpose of this statement is to resolve conflicting guidance resulting from issuance of Statements 54 "Fund Balance Reporting and Governmental Fund Type Definitions" and Statement 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The requirements of Statement 66 are effective for financial statements for periods beginning after December 15, 2012.



## **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 2013 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 require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement 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,

A handwritten signature in black ink, appearing to read 'Franz Ader', with a long horizontal flourish extending to the right.

Franz Ader, PE, MPA  
Finance Director



Government Finance Officers Association

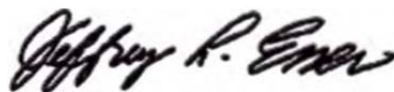
**Certificate of  
Achievement for  
Excellence in  
Financial  
Reporting**

Presented to

**Town of Kernersville  
North Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**



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, 2013, 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, 2013, 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***

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

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance-Schedule of Funding Progress and Schedule of Required Employer Contributions, and Other Postemployment Benefits-Schedule of Funding Progress and Schedule of Employer Contributions on pages 5 through 17 and 64 through 67, 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 section 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, 2013 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*

*December 11, 2013*

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**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**June 30, 2013**

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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, 2013. 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 of the Town of Kernersville exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$122,702,334.
- The government's total net position decreased by \$1,610,901 in the current fiscal year.
- As of the close of the current fiscal year, the Town of Kernersville's governmental funds reported combined ending fund balances of \$12,696,185. Approximately 60.9% of this total amount, or \$7,733,398, is available for spending at the government's discretion (unassigned).
- Approximately 14.5% of the total combined fund balance or \$1,840,452 is committed to transportation or capital projects. Approximately 5.3% of the total combined fund balance or \$675,546 is assigned to subsequent year's expenditures and about 19.3% or \$2,446,789 is restricted as either non-spendable for prepaid assets, by state statute or by funding source.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund of \$7,733,398 represented 31.6% 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 \$164,853 for the fiscal year ending June 30, 2013. The net increase was primarily the result of \$1,905,500 in new installment purchase contracts (various equipment, buildings and land). Total debt currently stands at \$12,228,744.
- 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 A1. These street construction bonds represent the only general obligation debt of the Town.
- For fiscal year 2012-13, the Town's property tax rate was \$0.4975 and supported 52.6% of governmental services to citizens and the community based on government-wide statements.

### **Overview of the Financial Statements**

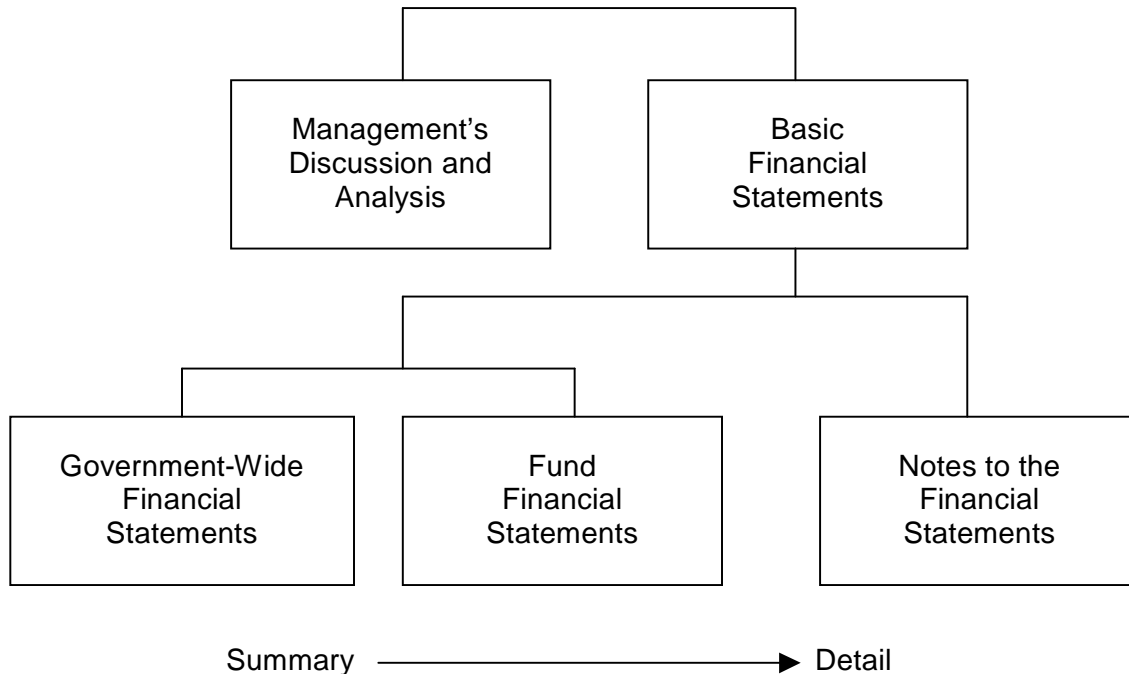
This discussion and analysis are intended to serve as an introduction to the Town of Kernersville's basic financial statements. The Town's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements (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, 2013

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**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 short- and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 9) 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**  
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### **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 they have changed. Net position is the difference between the Town's total assets 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 A and B of this report.

### **Fund Financial Statements**

The fund financial statements (see Exhibit 3 through 9) 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 government 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 31-61 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 63 of this report.

**Government-Wide Financial Analysis**

**NET POSITION**  
**Figure 2**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 15,029,846	\$ 13,139,024	\$ 946,040	\$ 818,687	\$ 15,975,886	\$ 13,957,711
Capital assets	126,077,477	128,457,155	238,723	266,719	126,316,200	128,723,874
<b>Total assets</b>	<b>141,107,323</b>	<b>141,596,179</b>	<b>1,184,763</b>	<b>1,085,406</b>	<b>142,292,086</b>	<b>142,681,585</b>
Other liabilities	3,992,473	3,537,141	44,688	106,068	4,037,161	3,643,209
Long-term liabilities	15,512,790	14,724,244		897	15,512,790	14,725,141
<b>Total liabilities</b>	<b>19,505,263</b>	<b>18,261,385</b>	<b>44,688</b>	<b>106,965</b>	<b>19,549,951</b>	<b>18,368,350</b>
Deferred inflows of resources	47,401	-	-	-	47,401	-
<b>Net position:</b>						
Net investment in capital assets	119,209,937	122,184,493	238,723	229,098	119,448,660	122,413,591
Restricted for:						
Stabilization by State Statute	1,618,892	2,450,611	-	-	1,618,892	2,450,611
Unrestricted	733,430	(1,300,310)	901,352	749,343	1,634,782	(550,967)
<b>Total net position</b>	<b>\$ 121,562,259</b>	<b>\$ 123,334,794</b>	<b>\$ 1,140,075</b>	<b>\$ 978,441</b>	<b>\$ 122,702,334</b>	<b>\$ 124,313,235</b>

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
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Over time, net position may serve as one useful indicator of a government's financial condition. The governmental assets of the Town of Kernersville exceeded liabilities and deferred inflows of resources by \$121,562,259 as of June 30, 2013. The largest portion of net position reflects the Town's 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 (1.3%) represents resources that are subject to external restrictions on how they may be used and an increase in unrestricted net position of \$2,033,740 from Fiscal Year 2011-12.

- Property tax collections increased \$155,878, primarily due to a combined tax base increase in commercial, industrial and public service property values of \$37,922,616. However, the assessed residential property values decreased \$9,902,393. This year's property tax collection rate was 98.29%.
- Sales and use tax revenues decreased \$23,321 over last year's collections. This minimal decrease of 0.6% over last year's collections represents the stabilization of economic growth in Kernersville.

The net result of the above revenues and expenses was a decrease in total net position in the amount of \$1,610,901 for the year (Figure 3).

**CHANGES IN NET POSITION**  
**Figure 3**

	Governmental Activities		Business-type Activities		Total	
Revenues	2013	2012	2013	2012	2013	2012
<b>Program Revenues:</b>						
Charges for Services:	\$ 2,242,101	\$ 2,118,306	\$ 988,820	\$ 1,006,712	\$ 3,230,921	\$ 3,125,018
Operating grants and contributions	2,930,324	2,871,690			2,930,324	2,871,690
Capital grants and contributions	162,253	248,058			162,253	248,058
<b>General Revenues:</b>						
Property taxes	12,883,905	12,696,485			12,883,905	12,696,485
Other taxes	247,477	246,837			247,477	246,837
Unrestricted intergovernmental revenues:	6,194,669	6,200,440			6,194,669	6,200,440
Investment earnings, unrestricted	12,787	16,355	353	222	13,140	16,577
Gain (Loss) on sale of capital assets	(115,866)	(1,581,296)			(115,866)	(1,581,296)
Miscellaneous	49,774	96,956			49,774	96,956
Total revenues	24,607,424	22,913,831	989,173	1,006,934	25,596,597	23,920,765
<b>Expenditures</b>						
General government	4,168,945	4,139,013			4,168,945	4,139,013
Public Safety	11,782,579	12,774,638			11,782,579	12,774,638
Public Service	8,575,454	8,087,763			8,575,454	8,087,763
Culture and recreation	1,606,921	1,544,984			1,606,921	1,544,984
Stormwater			695,750	659,424	695,750	659,424
Unallocated interest expense	377,849	396,651			377,849	396,651
Total expenses	26,511,748	26,943,049	695,750	659,424	27,207,498	27,602,473
Increase (decrease) in net position before transfers	(1,904,324)	(4,029,218)	293,423	347,510	(1,610,901)	(3,681,708)
Transfers	131,789	177,330	(131,789)	(177,330)	-	-
Increase (decrease) in net assets	(1,772,535)	(3,851,888)	161,634	170,180	(1,610,901)	(3,681,708)
Net position, July 1	\$ 123,334,794	\$ 127,186,682	\$ 978,441	\$ 808,261	\$ 124,313,235	\$ 127,994,943
Net assets, June 30	\$ 121,562,259	\$ 123,334,794	\$ 1,140,075	\$ 978,441	\$ 122,702,334	\$ 124,313,235

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
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**Governmental Activities.** The Town's net position from governmental activities decreased by \$1,772,535 during the year. This net decrease is the result of several declining revenue sources as well as some roadway assets that were transferred from the Town to the State of North Carolina – Department of Transportation.

**Business-Type Activities.** The Town's net position from business-type activities increased by \$161,634 during the year. This net increase is lower than the prior year increase of \$170,180 because of additional expenses.

### **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. Unreserved fund balance is one useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Kernersville. At the end of the fiscal year, the fund balance was \$11,439,966 of which \$2,188,191 was restricted or considered nonspendable and \$9,251,775 was unrestricted. Of the restricted portion, \$2,171,712 was restricted by state statute or by use such as the following: tourism, public safety, capital equipment and drug education.

Of the unrestricted portion of the total fund balance, \$1,120,723 was committed to transportation or capital projects, \$397,654 was assigned for subsequent year's expenditures and \$7,733,398 was unassigned and available.

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. Unassigned fund balance represents 31.6% of total General Fund expenditures, while total fund balance represents 46.7% of that same amount.

The Town had seven Nonmajor Special Revenue or Capital Project Funds having a total fund balance of \$1,256,219 at the fiscal year end. Of this amount, \$258,598 was restricted by state statute or use while \$997,621 was unrestricted. Of the unrestricted amount, \$719,729 was committed for capital projects and \$277,892 was assigned for subsequent year's expenditures.

There were several nonmajor special revenue funds with significant increases or decreases in fund balance. The Occupancy Tax Fund had a decrease in fund balance of 37.0% or \$19,019 due to increased expenditures. The Emergency Telephone System Fund saw a decrease in fund balance of 17.5% or \$16,087 due to expenditures in excess of revenues. The Contributions Fund had an increase in fund balance of \$37,877 or 81.5% due primarily to an increase contributions revenue and interfund transfers. The Law Enforcement Forfeiture Fund had a decrease in fund balance of \$4,982 or 1.4% due to the combined increase in revenue and expenditures. The Federal Justice Assistance Grant Fund had a slight increase of 2.0% or \$12 and an ending fund balance of \$599.

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Of the Nonmajor Capital Project Funds, the Public Works Facility Capital Projects Ordinance Fund exhibited a 0.0% growth with an increase of \$217 and an ending fund balance of \$555,640. The Kerner Mill Greenway Capital Projects Ordinance Fund had a decrease in fund balance of 32.6% or \$79,293 due primarily to budgeted revenues that were not collected.

At June 30, 2013, the governmental funds of the Town reported a combined fund balance of \$12,696,185 or a 15.0% increase over the previous year. The increase is primarily due to the sale of land right-of-way to the NC Department of Transportation, transfers from other funds and the recognition of a \$1,218,500 loan to cover land and building purchases made in the prior year.

**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 (4) budget amendments during the fiscal year. The four budget amendments resulted in a total net increase in budgeted general fund expenditures of \$1,481,817 for the fiscal year, primarily due to increased expenditures associated with the following: 1) various construction projects including the following: Piney Grove Road, Union Cross Road, Angel Road, Fourth of July Park, stormwater structure improvements on Kings Street and Delmont Street); 2) sanitary sewer engineering study; 3) transfers to capital reserves for future transportation projects and group insurance expenses; 4) South Main Street landscape project; 5) funds for various supplies budgeted yet unspent at the end of fiscal year 2011-12 including Fire Chief vehicle, ladder truck equipment and bullet proof vests; 6) Police Department – “Saved By the Belt” Grant; and 7) a one-ton dump truck.

Numerous budget to actual variances in both revenues and expenditures warrant discussion. Overall, the economy has somewhat stabilized. The greatest positive revenue budget variances are reflected in the property tax collections and in building inspection fees. A positive budget variance of \$256,288 or 2.0% occurred with ad valorem tax collections as a result of collection rates being higher than anticipated. A positive budget variance of \$104,514 or 63.3% occurred with the collection of building inspection fees which were higher due to unexpected building growth within Town.

The greatest negative revenue budget variances were within the restricted intergovernmental revenues and the contributions/donation categories. The restricted category consists of state, local and federal grants and other funds restricted by their use. Restricted revenues were down a total of \$898,146 or 36.1% below budget primarily due to grants not being awarded as anticipated for road various road construction projects. The donations and contributions category was down a total of \$649,976 or 40.5% primarily due to funds not being awarded for a sewer construction project. The net budget variance in the Town’s general fund revenue was negative \$1,308,537 or 5.1%.

The expenditure budget to actual variances were positive in all expenditure categories: general government, public safety, public service and culture/recreation. In the general government category, all departments experienced positive budget to actual variances with the greatest occurring within the general services department in the total amount of \$65,292 or 12.8% due primarily to fewer supplies being consumed as well as continued energy savings from energy upgrades within town government buildings. Overall, this category had a positive budget variance totaling \$224,933 or 6.4%.

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Within the Public Safety category, all departments experienced positive budget to actual variances with the total category positive budget variance being 4.0% or \$486,782. The greatest positive budget variance within the category occurred in the Fire Department at a total of \$263,527 or 5.0% as a result of personnel-related expenses not occurring including position vacancies and equipment that was not purchased for a ladder truck anticipated to be acquired in fiscal year 2013-14.

Within the Cultural and Recreational category, all departments had positive budget variances with the Recreation Department having the greatest variance of \$138,374 or 9.8% primarily due to the following: personnel-related expenses not occurring including position vacancies, operation and maintenance lower than expected and supplies not purchased. The total positive budget variance for this category totaled 10.9% or \$159,927.

The category with the greatest positive budget variance in the General Fund was the Public Service category at \$2,236,898 or 24.2% due primarily to large positive variances in the Engineering and Transportation Departments (\$587,347 and \$1,191,707 respectively) primarily as the result of the Piney Grove Road improvement project and a sewer engineering design/construction project for Brookford Road/Hospital Boulevard that were not undertaken.

The cumulative total expenditure variance for all categories within the General Fund was 11.3% or \$3,108,539. As such, no portion of fund balance was actually appropriated, compared to the budgeted amount of \$407,971.

**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 16.5% or \$161,634 to a total of \$1,140,075. The increase was primarily a result of total operating revenues exceeding total operating expenses due to several stormwater structure projects not being undertaken.

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 3.5% or \$11,213 to a total of \$335,021.

### **Capital Asset and Debt Administration**

**Capital Assets.** The Town of Kernersville's investment in capital assets for its governmental activities as of June 30, 2013 totals \$126,077,477 (net of accumulated depreciation). These assets include buildings, roads, and bridges, land, machinery and equipment, park facilities, and vehicles. The Town of Kernersville's investment in capital assets in the Business Type Fund or the Stormwater Fund totaled \$238,723.



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For the fiscal year ended June 30, 2013, major capital asset transactions for governmental activities include the following:

- Acquisition of land and rights-of-way increased in an amount of \$58,886.
- Infrastructure saw an increase in the amount of \$509,855.
- Equipment and heavy equipment increased in the amount of \$532,608.
- Vehicles for various departments increased in the amount of \$228,984.

For the fiscal year ended June 30, 2013, major capital asset transactions for the Business Type fund (Stormwater Fund) include the following:

- Vehicles increased in the amount of \$25,400.

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

**CAPITAL ASSETS (Net of Depreciation)  
Figure 4**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total 2013</b>	<b>Total 2012</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>		
<b>Capital assets not being depreciated</b>						
Land	\$ 67,086,303	\$ 67,136,591	\$ -	\$ -	\$ 67,086,303	\$ 67,136,591
Construction in progress	-	-	-	-	-	-
Total capital assets not being depreciated	67,086,303	67,136,591	-	-	67,086,303	67,136,591
<b>Capital assets being depreciated</b>						
Buildings and Improvements	6,406,292	6,635,188	-	-	6,406,292	6,635,188
Land improvements	1,300,784	1,408,271	-	-	1,300,784	1,408,271
Infrastructure	47,928,752	49,562,934	116,321	119,749	48,045,073	49,682,683
Equipment and Heavy equipment	2,702,505	3,014,160	97,708	126,981	2,800,213	3,141,141
Vehicles	652,841	700,011	24,694	19,989	677,535	720,000
	58,991,174	61,320,564	238,723	266,719	59,229,897	61,587,283
	<u>\$ 126,077,477</u>	<u>\$ 128,457,155</u>	<u>\$ 238,723</u>	<u>\$ 266,719</u>	<u>\$ 126,316,200</u>	<u>\$ 128,723,874</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA  
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**Long-Term Debt.** As of June 30, 2013 the Town of Kernersville had total bonded debt outstanding of \$4,400,000 for street construction. This debt was issued in fiscal year 2003-04 and the last payment on that 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	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 4,400,000	\$ 4,800,000	\$ -	\$ -	\$ 4,400,000	\$ 4,800,000
Revolving Loan payable	4,800,000	5,200,000	-	-	4,800,000	5,200,000
Installment purchases	3,028,744	2,026,270	-	37,621	3,028,744	2,063,891
	<u>\$ 12,228,744</u>	<u>\$ 12,026,270</u>	<u>\$ -</u>	<u>\$ 37,621</u>	<u>\$ 12,228,744</u>	<u>\$ 12,063,891</u>

The Town of Kernersville's total debt of both governmental and business-type activities had a net increase of \$164,853 or 1.3% for the fiscal year ended June 30, 2013. The net increase was primarily the new installment purchase contracts for various equipment, land and buildings. Total debt currently stands at \$12,228,744.

Street construction bonds issued in fiscal year 2003-04 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 rating remains at A1. These ratings are a clear indication of the Town's financial condition and its consistency for managing its finances well.

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 \$208,032,177. The total bonded debt outstanding at the close of this fiscal year was \$4,400,000 resulting in a legal debt margin for the Town of Kernersville of \$203,632,177. Hence, the total bonded debt for the Town of Kernersville is 2.12%. The Town has no authorized but unissued debt at June 30, 2013.

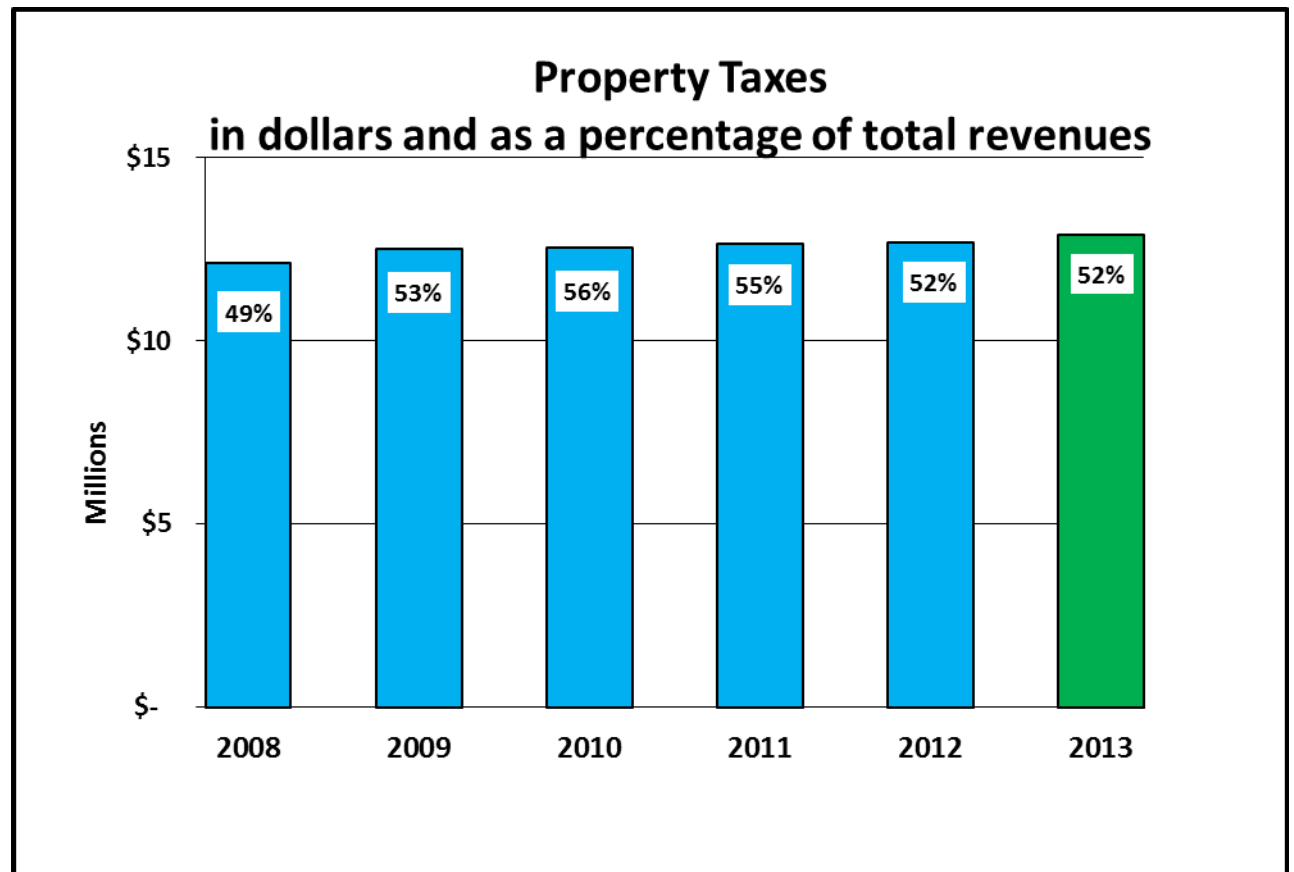
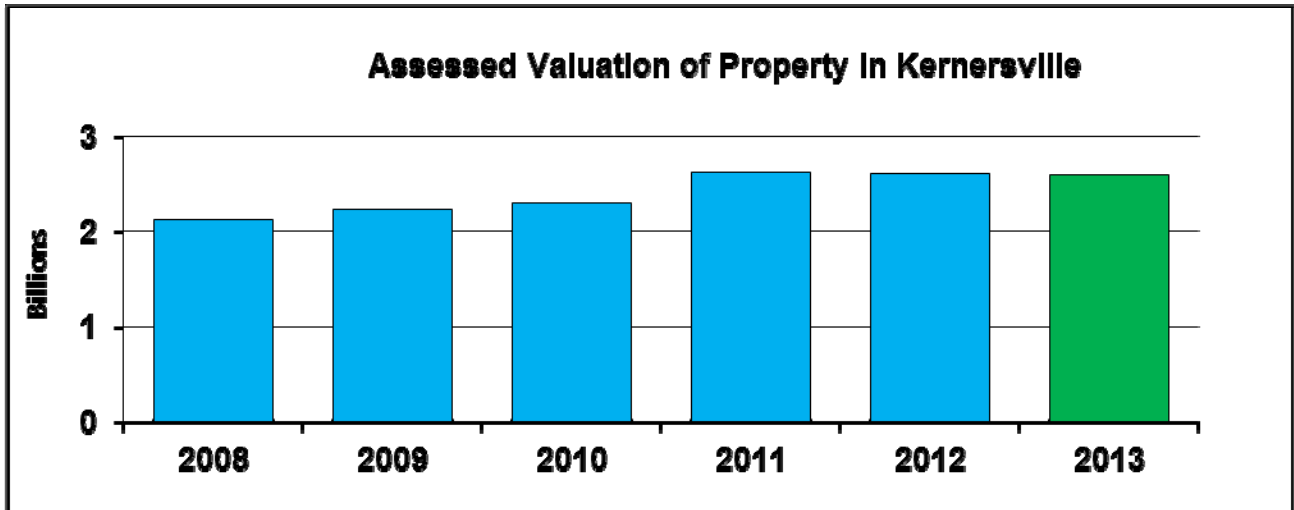
Additional information regarding the Town's long-term debt can be found on Section 2.B.7 of the notes.

**TOWN OF KERNERSVILLE, NORTH CAROLINA  
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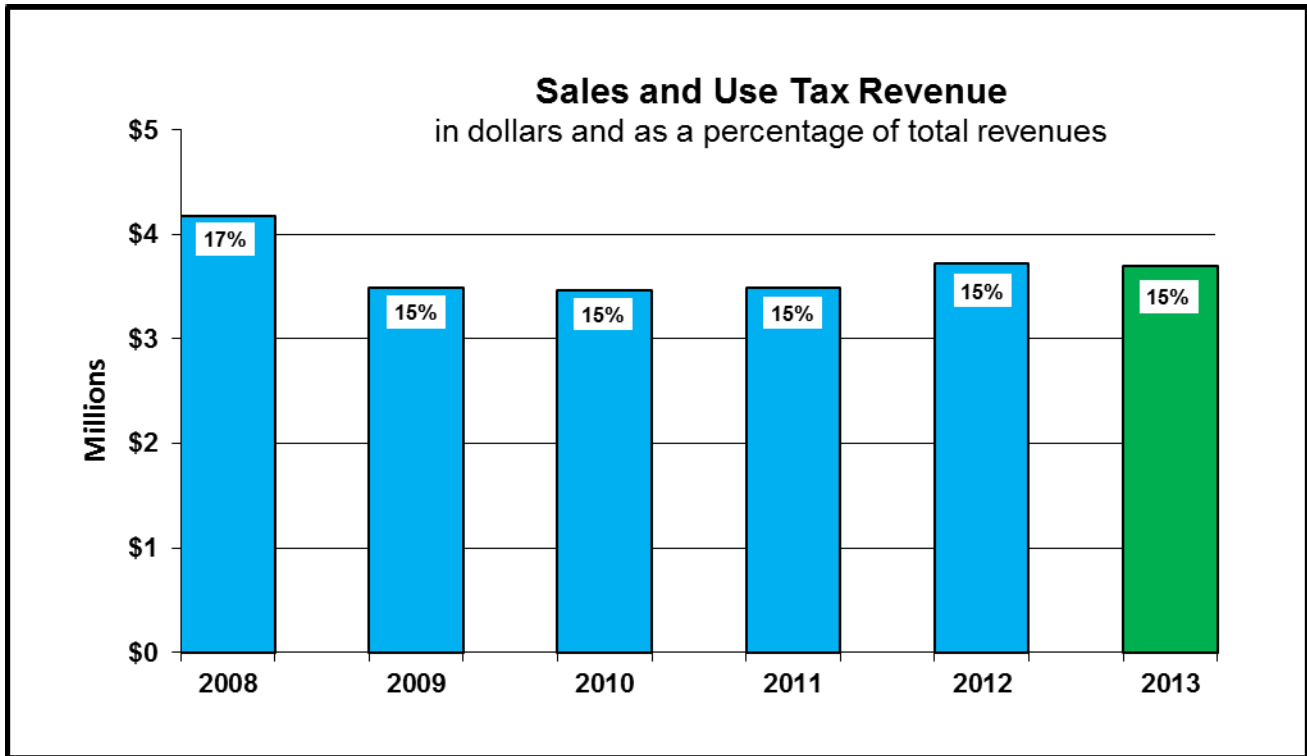
**Economic Factors and Next Year's Budgets and Rates**

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

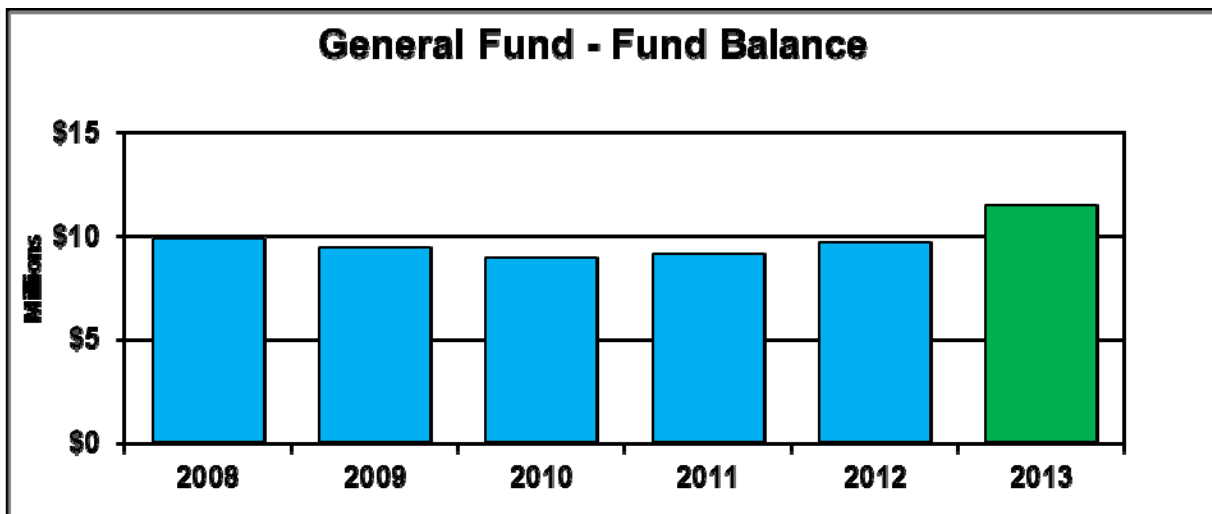


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The preceding graphs show that the Town's largest source of revenue - property taxes - increased steadily from 2008 to 2013. The Town's second largest revenue source (sales and use taxes) increased steadily from 2005 to 2008 with a sharp drop off beginning in 2009. Sales and use remained relatively flat in 2010 and 2011 with increases observed in 2012 and 2013. 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 fund balances have 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/building purchases which occurred in the prior 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, 2013, the unemployment rate for Forsyth County was 8.8% and Guilford County was 9.8% compared to the State rate of 8.8% 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, 2014**

**Governmental Activities:** The General Fund budget for fiscal year 2013-14 was approved at \$25,573,387. Property taxes, the Town's largest source of revenue, is expected to decrease slightly in fiscal year 2013-14 compared to the amount collected in fiscal year 2012-13 primarily due to a tax revaluation which occurred in 2013 and resulted in a decrease of the Town's tax base of over \$150,000,000. Also, the unrestricted intergovernmental revenue categories budgeted in 2013-14 are expected to be lower than the prior year primarily because of the loss of almost \$650,000 in sales tax - hold harmless that the Town received in prior years. A budgeted appropriation of \$397,654 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 2013-14.

General Fund services and expenditures in 2013-14 are comparable to those in the prior year. Several major capital outlay items scheduled for fiscal year 2013-14 total \$1,872,750 and include the following:

- Five police patrol vehicles: \$117,500.
- Emergency response (APX 6000) radios: \$96,000.
- Fire suppression aerial truck: \$1,008,000.
- Breathing air cylinders: \$26,250.
- Mini excavator: \$65,000.
- Town Hall HVAC system: \$500,000.
- Computer storage and backup system: \$60,000.

The General Fund tax rate for the fiscal year ending June 30, 2014 is \$0.5275 per hundred dollars valuation of taxable property. This rate represents a decrease from the revenue-neutral tax rate of \$0.5338 that was calculated based from the January 1, 2013 revaluation of property in Forsyth County. Guilford County did not perform a revaluation of property in 2013.

**Business-Type Activities:** The budget for the Stormwater Enterprise Fund was approved at \$1,532,019 for 2013-14 with no changes in the fee rate structure. There are \$468,000 in capital outlay budgeted for stormwater structure general improvements. No significant program or service changes are scheduled for 2013-14.

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**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 E. Mountain St., P.O. Drawer 728, Kernersville, NC 27285.

## ***BASIC FINANCIAL STATEMENTS***

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**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**STATEMENT OF NET POSITION**  
**June 30, 2013**

Exhibit 1

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Current assets:			
Cash and investments	\$ 12,260,356	\$ 946,040	\$ 13,206,396
Prepaid assets	16,479	-	16,479
Receivables:			
Taxes receivable, net	477,160	-	477,160
Accrued interest receivable on taxes	95,776	-	95,776
Accounts receivable, net	178,275	-	178,275
Due from other governments	1,440,596	-	1,440,596
Restricted cash and cash equivalents	561,204	-	561,204
Total current assets	<u>15,029,846</u>	<u>946,040</u>	<u>15,975,886</u>
Noncurrent assets:			
Capital assets:			
Capital assets not depreciated	67,086,303	-	67,086,303
Other capital assets, net of depreciation	58,991,174	238,723	59,229,897
Total noncurrent assets	<u>126,077,477</u>	<u>238,723</u>	<u>126,316,200</u>
Total assets	<u>141,107,323</u>	<u>1,184,763</u>	<u>142,292,086</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	1,241,648	26,214	1,267,862
Claims and judgments	136,655	-	136,655
Accrued interest payable	87,243	-	87,243
Due within one year	2,387,219	18,474	2,405,693
Total current liabilities	<u>3,852,765</u>	<u>44,688</u>	<u>3,897,453</u>
Long-term liabilities:			
Due in more than one year	15,644,898	-	15,644,898
Total long-term liabilities	<u>15,644,898</u>	<u>-</u>	<u>15,644,898</u>
Total liabilities	<u>19,497,663</u>	<u>44,688</u>	<u>19,542,351</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Advanced rent payments	47,401	-	47,401
<b>NET POSITION</b>			
Net investment in capital assets	119,209,937	238,723	119,448,660
Restricted for:			
Stabilization by state statute	1,618,892	-	1,618,892
Unrestricted	733,430	901,352	1,634,782
Total net position	<u>\$ 121,562,259</u>	<u>\$ 1,140,075</u>	<u>\$ 122,702,334</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, 2013**

**Exhibit 2**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 4,168,945	\$ 335,490	\$ 114,363	\$ -	\$ (3,719,092)	\$ -	\$ (3,719,092)
Public safety	11,782,579	157,045	736,559	-	(10,888,975)	-	(10,888,975)
Public service	8,575,454	1,467,440	2,079,402	162,253	(4,866,359)	-	(4,866,359)
Cultural and recreational	1,606,921	282,126	-	-	(1,324,795)	-	(1,324,795)
Interest on long-term obligations	377,849	-	-	-	(377,849)	-	(377,849)
Total governmental activities	26,511,748	2,242,101	2,930,324	162,253	(21,177,070)	-	(21,177,070)
Business-type activities:							
Stormwater	695,750	988,820	-	-	-	293,070	293,070
Total business-type activities	695,750	988,820	-	-	-	293,070	293,070
Total government	<u>\$ 27,207,498</u>	<u>\$ 3,230,921</u>	<u>\$ 2,930,324</u>	<u>\$ 162,253</u>	<u>(21,177,070)</u>	<u>293,070</u>	<u>(20,884,000)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					12,883,905	-	12,883,905
Other taxes					247,477	-	247,477
Unrestricted intergovernmental revenues					6,194,669	-	6,194,669
Unrestricted investment earnings					12,787	353	13,140
Loss on disposal of capital assets					(115,866)	-	(115,866)
Miscellaneous					49,774	-	49,774
Total general revenues not including transfers					19,272,746	353	19,273,099
Transfers					131,789	(131,789)	-
Total general revenues and transfers					19,404,535	(131,436)	19,273,099
Change in net position					(1,772,535)	161,634	(1,610,901)
Net position - beginning					123,334,794	978,441	124,313,235
Net position - ending					<u>\$ 121,562,259</u>	<u>\$ 1,140,075</u>	<u>\$ 122,702,334</u>

The accompanying notes are an integral part of this statement.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2013**

**Exhibit 3**

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 10,505,702	\$ 1,247,877	\$ 11,753,579
Restricted cash	561,204	-	561,204
Prepaid assets	16,479	-	16,479
Taxes receivable, net	477,160	-	477,160
Accounts receivable, net	178,275	-	178,275
Due from other governments	1,432,233	8,363	1,440,596
Total assets	<u>\$ 13,171,053</u>	<u>\$ 1,256,240</u>	<u>\$ 14,427,293</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 1,206,526	\$ 21	\$ 1,206,547
Total liabilities	<u>1,206,526</u>	<u>21</u>	<u>1,206,547</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property tax receivable	477,160	-	477,160
Advanced rent payments	47,401	-	47,401
Total deferred inflows of resources	<u>524,561</u>	<u>-</u>	<u>524,561</u>
<b>Fund balances:</b>			
Non-spendable			
Prepaid assets	16,479	-	16,479
Restricted			
Stabilization by state statute	1,610,508	8,384	1,618,892
Capital equipment	561,204	-	561,204
Tourism	-	15,463	15,463
Public safety	-	153,197	153,197
Drug education	-	81,554	81,554
Committed			
Capital projects	1,120,723	719,729	1,840,452
Assigned			
Subsequent year's expenditures	397,654	277,892	675,546
Unassigned	7,733,398	-	7,733,398
Total fund balances	<u>11,439,966</u>	<u>1,256,219</u>	<u>12,696,185</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 13,171,053</u>	<u>\$ 1,256,240</u>	

**Amounts reported for governmental activities in the statement of net position are different because:**

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	126,077,477
Other assets are not available to pay for current expenditures and therefore are deferred in the funds (accrued interest receivable from taxes).	95,776
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.	335,021
Liabilities for earned but deferred revenues in fund statements.	477,160
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>(18,119,360)</u>
Net position of governmental activities	<u>\$ 121,562,259</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, 2013**

Exhibit 4

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>		
Revenues:			
Ad valorem taxes	\$ 12,885,047	\$ -	\$ 12,885,047
Other taxes and licenses	151,525	95,952	247,477
Unrestricted intergovernmental	6,194,669	-	6,194,669
Restricted intergovernmental	1,593,182	334,995	1,928,177
Penalties and interest	58,156	474	58,630
Contributions and donations	956,391	45,756	1,002,147
Other general revenues	49,990	-	49,990
Functionally related revenues	2,242,101	-	2,242,101
	<u>24,131,061</u>	<u>477,177</u>	<u>24,608,238</u>
Total revenues	<u>24,131,061</u>	<u>477,177</u>	<u>24,608,238</u>
Expenditures:			
Current:			
General government	3,189,818	-	3,189,818
Public safety	11,336,191	352,747	11,688,938
Public service	6,679,349	-	6,679,349
Cultural and recreational	1,274,517	190,529	1,465,046
Debt service:			
Principal	1,664,735	38,291	1,703,026
Interest and other charges	364,864	2,437	367,301
	<u>24,509,474</u>	<u>584,004</u>	<u>25,093,478</u>
Total expenditures	<u>24,509,474</u>	<u>584,004</u>	<u>25,093,478</u>
Revenues under expenditures	<u>(378,413)</u>	<u>(106,827)</u>	<u>(485,240)</u>
Other financing sources (uses):			
Transfers from other funds	414,043	95,219	509,262
Transfers to other funds	(307,806)	(69,667)	(377,473)
Installment purchase obligations issued	1,905,500	-	1,905,500
Sale of capital assets	107,250	-	107,250
	<u>2,118,987</u>	<u>25,552</u>	<u>2,144,539</u>
Total other financing sources	<u>2,118,987</u>	<u>25,552</u>	<u>2,144,539</u>
Net change in fund balances	1,740,574	(81,275)	1,659,299
Fund balances, beginning	<u>9,699,392</u>	<u>1,337,494</u>	<u>11,036,886</u>
Fund balances, ending	<u>\$ 11,439,966</u>	<u>\$ 1,256,219</u>	<u>\$ 12,696,185</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, 2013**

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Exhibit 5

**Total net change in fund balances - governmental funds** \$ 1,659,299

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 (\$3,487,345) exceeded capital outlays (\$1,168,080) in the current period. (2,319,265)

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	162,253
Change in unavailable revenues from tax revenues	(51,427)
Change in accrued interest receivable on property taxes	3,669

The issuance (\$1,905,500) of long-term debt provides current financial resources to governmental funds, while the repayment (\$1,703,026) 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. (202,474)

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.

Compensated absences	87,969
Net pension obligation	(59,514)
Net other postemployment benefit obligation	(840,723)
Change in accrued interest payable	(868)
Net book value of disposed capital assets	(222,667)

Net income of internal service funds determined to be governmental-type.	11,213
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<b>Changes in net position of governmental activities</b>	<b>\$ (1,772,535)</b>
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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, 2013**

Exhibit 6

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>With Final Positive (Negative)</b>
Revenues:				
Ad valorem taxes	\$ 12,628,759	\$ 12,628,759	\$ 12,885,047	\$ 256,288
Other taxes and licenses	145,235	145,235	151,525	6,290
Unrestricted intergovernmental	6,180,618	6,180,618	6,194,669	14,051
Restricted intergovernmental	813,503	2,491,328	1,593,182	(898,146)
Penalties and interest	81,000	81,000	58,156	(22,844)
Contributions and donations	1,369,558	1,606,367	956,391	(649,976)
Other general revenues	22,512	22,512	49,704	27,192
Functionally related revenues	2,243,593	2,283,493	2,242,101	(41,392)
Total revenues	23,484,778	25,439,312	24,130,775	(1,308,537)
Expenditures:				
Current:				
General government	3,177,990	3,528,301	3,303,369	224,932
Public safety	13,126,821	12,263,234	11,776,452	486,782
Public service	7,368,830	9,229,717	6,992,819	2,236,898
Cultural and recreational	1,339,315	1,473,521	1,313,594	159,927
Debt service	1,123,240	1,123,240	1,123,240	-
Total expenditures	26,136,196	27,618,013	24,509,474	3,108,539
Revenues under expenditures	(2,651,418)	(2,178,701)	(378,699)	1,800,002
Other financing sources (uses)				
Transfers from other funds	480,110	483,376	414,043	(69,333)
Transfers to other funds	(301,346)	(803,146)	(803,146)	-
Installment purchase obligations issued	1,797,000	1,915,500	1,905,500	(10,000)
Sale of capital assets	175,000	175,000	107,250	(67,750)
Total other financing sources	2,150,764	1,770,730	1,623,647	(147,083)
Revenues and other sources over (under) expenditures and other uses	(500,654)	(407,971)	1,244,948	1,652,919
Fund balance appropriated	500,654	407,971	-	(407,971)
Revenues, other sources and appropriated fund balance over expenditures and other uses	\$ -	\$ -	1,244,948	\$ 1,244,948
Fund balance, beginning			9,074,295	
Fund balance, ending			10,319,243	
A legally budgeted capital reserve fund is consolidated into the General Fund for reporting purposes:				
Fund balance, beginning			625,097	
Investment earnings			286	
Net transfers from other funds			495,340	
Fund balance, ending (Exhibit 4)			\$ 11,439,966	

The accompanying notes are an integral part of this statement.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2013**

Exhibit 7

	<b>Enterprise Fund</b>	<b>Internal Service Fund</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 946,040	\$ 506,777
Total current assets	946,040	506,777
Noncurrent assets:		
Other capital assets, net	238,723	-
Total noncurrent assets	238,723	-
Total assets	<u>\$ 1,184,763</u>	<u>\$ 506,777</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 26,214	\$ 35,101
Claims and judgments	-	136,655
Current maturities of long-term debt	18,474	-
Total current liabilities	44,688	171,756
<b>NET POSITION</b>		
Net investment in capital assets	238,723	-
Unrestricted	901,352	335,021
Total net position	1,140,075	335,021
Total liabilities and net position	<u>\$ 1,184,763</u>	<u>\$ 506,777</u>

The accompanying notes are an integral part of this statement.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2013**

Exhibit 8

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
OPERATING REVENUES		
Charges for services	\$ 988,820	\$ 277,122
TOTAL OPERATING REVENUES	<u>988,820</u>	<u>277,122</u>
OPERATING EXPENSES		
Personnel services	362,396	-
Depreciation	53,396	-
Other current charges	278,758	-
Claims	-	197,784
Stop-loss coverage	-	60,494
Administration	-	7,740
TOTAL OPERATING EXPENSES	<u>694,550</u>	<u>266,018</u>
OPERATING INCOME	<u>294,270</u>	<u>11,104</u>
NON OPERATING REVENUES (EXPENSES)		
Investment earnings	353	109
Interest and other charges	(1,200)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(847)</u>	<u>109</u>
INCOME BEFORE TRANSFERS	293,423	11,213
TRANSFERS		
Transfers from other funds	213,440	-
Transfers to other funds	(345,229)	-
CHANGE IN NET POSITION	161,634	11,213
TOTAL NET POSITION, beginning of year	<u>978,441</u>	<u>323,808</u>
TOTAL NET POSITION, end of year	<u><u>\$ 1,140,075</u></u>	<u><u>\$ 335,021</u></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, 2013**

**Exhibit 9**

	<b>Enterprise Fund</b>	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 988,820	\$ -
Cash paid for goods and services	(302,309)	(60,494)
Cash paid to employees	(361,915)	-
Receipts from other funds	-	277,122
Payment of claims	-	(173,940)
Payment of fee to administrator	-	(7,740)
	<u>324,596</u>	<u>34,948</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in from other funds	213,440	-
Transfers out to other funds	(345,229)	-
	<u>(131,789)</u>	<u>-</u>
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(25,400)	-
Principal paid on installment debt	(37,621)	-
Interest paid on installment debt	(2,786)	-
	<u>(65,807)</u>	<u>-</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment earnings	353	109
	<u>353</u>	<u>109</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	127,353	35,057
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>818,687</u>	<u>471,720</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u><u>\$ 946,040</u></u>	<u><u>\$ 506,777</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 294,270	\$ 11,104
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	53,396	-
Change in assets and liabilities:		
Increase (decrease) in account payable and accrued liabilities	(23,551)	31,444
Decrease in claims and judgments	-	(7,600)
Increase in accrued vacation pay	481	-
	<u>481</u>	<u>-</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 324,596</u></u>	<u><u>\$ 34,948</u></u>

**The accompanying notes are an integral part of this statement.**

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**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 1. 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, Basis of Accounting**

*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, 2013**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

B. Basis of Presentation, Basis of Accounting (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. 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; 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; and Federal Justice Assistance Grant Fund accounts for restricted proceeds and uses of federal justice assistance grants.

**Capital Projects Funds** - Capital Projects Funds - The Town reports two nonmajor Capital Project funds. 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. 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, 2013**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

B. Basis of Presentation, Basis of Accounting (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.

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.

*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, 2013**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation, 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 are materially past due and are not considered to be an available resource to finance the operations of the subsequent year. Also, as of January 1, 1993, 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, Forsyth County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the county, including the Town of Kernersville. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Forsyth County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash.

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.

The proprietary funds are presented in the financial statements on the accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period they are incurred. As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

C. 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 Projects Funds.

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.

D. 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.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

D. Assets, Liabilities and Net Positions/Fund Balance (Continued)

3. Restricted Assets

The unexpended proceeds from installment purchase agreements in the amount of \$561,204 in the General Fund are classified as restricted assets because their use is completely restricted to the purpose for which the installment purchase agreements were issued.

4. Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies and creates a lien for ad valorem taxes on July 1, the beginning of the fiscal year. These taxes are due on September 1; however, interest does not accrue until the following January 6. The taxes levied are based on the assessed values as of January 1, 2012. 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 two 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, 2002 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.



**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

D. Assets, Liabilities and Net Positions/Fund Balance (Continued)

7. Capital Assets (Continued)

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure, buildings and improvements	25 to 50 years
Furniture, equipment, heavy equipment, and vehicles	5 to 10 years
Software and computer equipment	3 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 no items that meet this criterion. 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 only two items that meet the criterion for this category - advanced rent payments and property taxes receivable.

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, 2013**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

D. Assets, Liabilities and Net Positions/Fund Balance (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 positions in the government-wide financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net positions represent 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, 2013**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

D. Assets, Liabilities and Net Positions/Fund Balance (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 Capital Equipment - portion of fund balance that represents unspent installment purchase proceeds that are restricted for the purchase of certain capital equipment.

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.

Restricted for Drug Education - portion of fund balance that is restricted by revenue source for drug education programs.

**Committed Fund Balance** - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Kernersville's Board (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

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, 2013**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

D. Assets, Liabilities and Net Positions/Fund Balance (Continued)

11. Net Positions/Fund Balances (Continued)

Fund Balances (Continued)

**Assigned Fund Balance** - portion of fund balance that the Town of Kernersville intends to use for specific purposes imposed by majority vote by quorum of the Town of Kernersville's Board (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

Subsequent year's expenditures - portion of total fund balance available for appropriation that has been designated for the adopted 2013-2014 budget ordinance.

**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 practices 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.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. 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 unit'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, 2013, the Town's deposits had a carrying amount of \$6,420,552 and a bank balance of \$6,775,741. Of the bank balance, \$1,226,124 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

At June 30, 2013, the Town's petty cash fund totaled \$5,950.

2. Investments

At June 30, 2013, the Town had \$7,341,098 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 policy regarding credit risk.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. 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	\$ 957,567
Utilities franchise, video programming, solid waste, and telecommunications tax	278,764
Property tax collections due from Forsyth County	17,491
Alcohol beverage tax	52,478
Sales tax refunds	125,933
Occupancy Tax Fund	
Occupancy tax reimbursement	<u>8,363</u>
	<u>\$ 1,440,596</u>

4. Receivables - Allowance for Doubtful Accounts

The receivables shown in the balance sheet and the statement of net position are presented net of the following allowances for doubtful accounts:

	<u>June 30, 2013</u>
General Fund	
Taxes receivable	<u>\$ 73,000</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 2. Detail Notes on All Funds (Continued)**

**A. Assets (Continued)**

**5. Capital Assets**

Capital asset activity for the year ended June 30, 2013 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	\$ 67,136,591	\$ 58,886	\$ (109,174)	\$ 67,086,303
Capital assets being depreciated:				
Buildings and improvements	11,475,412	\$ -	\$ (7,456)	11,467,956
Land improvements	2,687,030	-	-	2,687,030
Infrastructure	85,488,949	509,855	(69,093)	85,929,711
Equipment and heavy equipment	10,753,732	532,608	(456,193)	10,830,147
Vehicles	3,265,097	228,984	(421,722)	3,072,359
Total capital assets being depreciated	<u>113,670,220</u>	<u>\$ 1,271,447</u>	<u>\$ (954,464)</u>	<u>113,987,203</u>
Less accumulated depreciation for:				
Buildings and improvements	4,840,224	\$ 234,187	\$ (12,747)	5,061,664
Land improvements	1,278,759	107,487	-	1,386,246
Infrastructure	35,926,014	2,121,912	(46,967)	38,000,959
Equipment and heavy equipment	7,739,571	779,430	(391,359)	8,127,642
Vehicles	2,565,087	244,329	(389,898)	2,419,518
Total accumulated depreciation	<u>52,349,655</u>	<u>\$ 3,487,345</u>	<u>\$ (840,971)</u>	<u>54,996,029</u>
Total capital assets being depreciated, net	<u>61,320,565</u>			<u>58,991,174</u>
Governmental activity capital assets, net	<u>\$ 128,457,156</u>			<u>\$ 126,077,477</u>

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

General government	\$ 132,738
Public safety	730,829
Public service	2,410,346
Culture and recreation	<u>213,432</u>
Total governmental activities	<u>\$ 3,487,345</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. 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:				
Capital assets being depreciated:				
Infrastructure	\$ 137,185	\$ -	\$ -	\$ 137,185
Equipment and heavy equipment	315,747	-	-	315,747
Vehicles	<u>41,205</u>	<u>25,400</u>	<u>(23,918)</u>	<u>42,687</u>
Total capital assets being depreciated	<u>494,137</u>	<u>\$ 25,400</u>	<u>\$ (23,918)</u>	<u>495,619</u>
Less accumulated depreciation for:				
Infrastructure	17,436	\$ 3,428	\$ -	20,864
Equipment and heavy equipment	188,766	29,273	-	218,039
Vehicles	<u>21,216</u>	<u>20,695</u>	<u>(23,918)</u>	<u>17,993</u>
Total accumulated depreciation	<u>227,418</u>	<u>\$ 53,396</u>	<u>\$ (23,918)</u>	<u>256,896</u>
Total capital assets being depreciated, net	<u>266,719</u>			<u>238,723</u>
Business-type activity capital assets, net	<u>\$ 266,719</u>			<u>\$ 238,723</u>

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

Stormwater	<u>\$ 53,396</u>
Total business-type activities	<u>\$ 53,396</u>



**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. Detail Notes on All Funds (Continued)**

**B. Liabilities**

**1. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Payable to vendors and others	\$ 905,326	\$ 13,606	\$ 918,932
Accrued payroll and related liabilities	<u>336,322</u>	<u>12,608</u>	<u>348,930</u>
Total accounts payable and accrued liabilities	<u>\$ 1,241,648</u>	<u>\$ 26,214</u>	<u>\$ 1,267,862</u>

**2. Pension Plan and Postemployment Obligations**

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

*Plan Description.* The Town of Kernersville contributes to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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.

*Funding Policy.* Plan members are required to contribute 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Kernersville are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012 and 2011 were \$741,923, \$742,371 and \$678,490, respectively. The contributions made by the Town equaled the required contributions for each year.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. Detail Notes on All Funds (Continued)**

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

b. ***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. In addition, the Town has elected to contribute an amount equal to 2% of each non-sworn participant's salary. Also, participants may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2013 were \$371,702, which consisted of \$154,172 from the Town and \$217,530 from employees.

c. ***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 stand-alone financial report is not issued for this 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, 2013**

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**Note 2. Detail Notes on All Funds (Continued)**

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

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

At December 31, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	4
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	<u>64</u>
Total	<u><u>68</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.

*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.

The annual required contribution for the current year was determined as part of the December 31, 2012 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 percentage of pay on a closed basis. The remaining amortization period at December 31, 2012 was 18 years.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

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**Note 2. Detail Notes on All Funds (Continued)**

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

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

*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	\$ 165,399
Interest on net pension obligation	43,621
Adjustment to annual required contribution	<u>(54,292)</u>
Annual pension cost	154,728
Contributions made	<u>(95,214)</u>
Increase in net pension obligation	59,514
Net pension obligation, beginning of year	<u>872,419</u>
Net pension obligation, end of year	<u><u>\$ 931,933</u></u>

*Funded Status and Funding Process:* As of December 31, 2012, 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 \$1,622,823. The covered payroll (annual payroll of active employees covered by the plan) was \$3,085,140, and the ratio of the UAAL to the covered payroll was 52.60%.

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.

*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>
6/30/11	\$ 149,111	45.15%	\$ 797,991
6/30/12	141,753	47.49%	872,419
6/30/13	154,728	61.54%	931,933

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. Detail Notes on All Funds (Continued)**

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

d. ***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.

Membership of the HCB Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	18	4
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	<u>187</u>	<u>64</u>
Total	<u><u>205</u></u>	<u><u>68</u></u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. Detail Notes on All Funds (Continued)**

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

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

Healthcare Benefits (Continued)

*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 \$999 per month for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 7.7% of annual covered payroll. For the current year, the Town contributed \$109,237 or 0.98% 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 0.75% and 0.50% of covered payroll, respectively. There were no contributions made by employees. 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.

*Annual 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:

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

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**Note 2. Detail Notes on All Funds (Continued)**

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

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

Healthcare Benefits (Continued)

Annual required contribution	\$ 930,839
Interest on net OPEB obligation	111,918
Adjustment to annual required contribution	<u>(106,916)</u>
Annual OPEB cost (expense)	935,841
Contributions made	<u>(95,118)</u>
Increase in net OPEB obligation	840,723
Net OPEB obligation, beginning of year	<u>2,797,938</u>
Net OPEB obligation, end of year	<u><u>\$ 3,638,661</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 were as follows:

<u>For Year Ended</u> <u>June 30</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2011	\$ 775,773	13.3%	\$ 2,000,054
2012	903,727	11.7%	2,797,938
2013	935,841	10.2%	3,638,661

*Funded Status and Funding Progress.* As of December 31, 2012, 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 \$9,076,103. The covered payroll (annual payroll of active employees covered by the plan) was \$10,822,067, and the ratio of the UAAL to the covered payroll was 83.9%. 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.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. Detail Notes on All Funds (Continued)**

B. Liabilities (Continued)

2. Pension Plan and Postemployment Obligations (Continued)

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

Healthcare Benefits (Continued)

*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, 2012 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 8.5% 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, 2012 was 30 years.



**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. 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 \$20,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the state. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2013, the Town did not make contributions to the state for death benefits due to a surplus.

4. Deferred Outflows and Inflows of Resources

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

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>	<u>Total</u>
Taxes receivable	\$ 477,160	\$ -	\$ 477,160
Advanced rent payments	<u>-</u>	<u>47,401</u>	<u>47,401</u>
	<u>\$ 477,160</u>	<u>\$ 47,401</u>	<u>\$ 524,561</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. Detail Notes on All Funds (Continued)**

B. Liabilities (Continued)

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 St. Paul Travelers Insurance Company. 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.

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 is also bonded under a blanket policy for \$250,000.

The Town carries flood insurance through American Alternative Insurance Corporation. The Town's flood coverage limit is \$1,000,000 with a \$25,000 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 flood coverage for that structure due to the unlikelihood that the structure would be damaged if flooding occurred.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. Detail Notes on All Funds (Continued)**

B. Liabilities (Continued)

5. Risk Management (Continued)

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. Changes in the balances of claims liabilities during the past two years are as follows:

	<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Unpaid claims, beginning of fiscal year	\$ 144,255	\$ 293,768
Incurred claims (including IBNRs)	197,784	58,801
Increase (decrease) in claims reserve	(7,600)	(61,688)
Claim payments	<u>(197,784)</u>	<u>(146,626)</u>
Unpaid claims, end of fiscal year	<u>\$ 136,655</u>	<u>\$ 144,255</u>

6. Claims and Judgments

At June 30, 2013, the Town was a defendant to various lawsuits. In the opinion of the Town's management, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

7. Long-Term Obligations

a. Installment Purchase Agreements – Equipment and Construction

The Town has entered into agreements to finance certain equipment. The title to the equipment is held in the name of the Town, and security interest in the equipment has been granted to the financing institution. The capital assets have been recorded at the present value of the future minimum installment payments as of the date of their inception.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. Detail Notes on All Funds (Continued)**

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

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

The future minimum installment purchase payments and the net present value of these payments as of June 30, 2013 are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Governmental</u>
2014	\$ 845,852
2015	758,440
2016	528,437
2017	242,888
2018	99,511
Next 5 years	470,138
Next 4 years	<u>343,211</u>
Total minimum payments	3,288,477
Less amount representing interest	<u>259,733</u>
Present value of installment purchase payments	<u>\$ 3,028,744</u>

b. General Obligation Indebtedness

On May 3, 2004, the Town issued \$7,000,000 in general obligation bonds authorized by an order adopted on September 1, 1998, entitled, "Bond Order Authorizing the Issuance of \$7,000,000 Street and Sidewalk Bonds of the Town of Kernersville." A portion of the proceeds from these bonds was 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.

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, 2013 consist of the following individual issues:

Street Bonds, Series 2004; principal due annually on May 1 beginning May 1, 2005 in increasing installments ranging from \$100,000 to \$400,000; interest due November 1 and May 1 at rates ranging from 3.0% to 4.6% through May 1, 2024.	<u>\$ 4,400,000</u>
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**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

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**Note 2. 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
2014	\$ 400,000	\$ 181,400	\$ 581,400
2015	400,000	165,400	565,400
2016	400,000	150,800	550,800
2017	400,000	135,800	535,800
2018	400,000	120,400	520,400
Next 5 years	2,000,000	355,000	2,355,000
Next 1 years	<u>400,000</u>	<u>18,400</u>	<u>418,400</u>
	<u>\$ 4,400,000</u>	<u>\$ 1,127,200</u>	<u>\$ 5,527,200</u>

The Town's legal debt margin at June 30, 2013 was \$218,433,463.

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 2026. The Town repaid \$400,000 during fiscal year ended June 30, 2013. The total amount outstanding at June 30, 2013 was \$4,800,000.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 2. 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
2014	\$ 400,000	\$ 116,160	\$ 516,160
2015	400,000	106,480	506,480
2016	400,000	96,800	496,800
2017	400,000	87,120	487,120
2018	400,000	77,440	477,440
Next 5 years	2,000,000	242,000	1,842,000
Next 2 years	800,000	29,040	829,040
	<u>\$ 4,800,000</u>	<u>\$ 755,040</u>	<u>\$ 5,555,040</u>

**d. Changes in Long-Term Obligations**

During the year ended June 30, 2013, the following changes occurred in long-term obligations:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion of Balance
Governmental activities:					
General obligation bonds	\$ 4,800,000	\$ -	\$ (400,000)	\$ 4,400,000	\$ 400,000
Revolving loan payable	5,200,000	-	(400,000)	4,800,000	400,000
Installment purchases	2,026,270	1,905,500	(903,026)	3,028,744	845,852
Compensated absences	1,320,748	653,398	(741,367)	1,232,779	741,367
Net pension obligation	872,419	154,728	(95,214)	931,933	-
Net OPEB obligation	2,797,938	935,841	(95,118)	3,638,661	-
	<u>\$ 17,017,375</u>	<u>\$ 3,649,467</u>	<u>\$ (2,634,725)</u>	<u>\$ 18,032,117</u>	<u>\$ 2,387,219</u>
	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion of Balance
Business-type activities:					
Installment purchases	\$ 37,621	\$ -	\$ (37,621)	\$ -	\$ -
Compensated absences	17,993	47,505	(47,024)	18,474	18,474
	<u>\$ 55,614</u>	<u>\$ 47,505</u>	<u>\$ (84,465)</u>	<u>\$ 18,474</u>	<u>\$ 18,474</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, 2013**

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**Note 2. Detail Notes on All Funds (Continued)**

B. Liabilities (Continued)

8. Commitments

The Town has agreed to contribute annually toward the cost of construction, maintenance and operation of a community pool adjacent to the YMCA facilities. The Town's expense for the fiscal year ended June 30, 2013 amounted to \$60,000. The Town includes the obligation in its budget ordinance for each year during the term. The Town's contribution schedule subsequent to June 30, 2013 is as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amount</u>
2014	\$ 60,000
2015	<u>10,000</u>
Total	<u>\$ 70,000</u>

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2013 consist of the following:

From the General Fund to the Stormwater Fund for storm water fees.	\$ 213,440
From the General Fund to the Nonmajor Governmental Funds for (1) a \$62,568 transfer to Contributions Fund for capital outlays; and (2) a \$32,651 transfer to E-911 Fund to offset operating expenses.	95,219
From the General Fund to the Capital Reserve Fund for future capital projects.	494,487
From the Capital Reserve Fund to the General Fund for interest income.	255
From the Stormwater Fund to the General Fund for final reimbursement of expenses.	344,121
From the Stormwater Fund to the Capital Reserve Fund for future projects.	1,108

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 2. Detail Notes on All Funds (Continued)**

C. Interfund Balances and Activity (Continued)

From the Nonmajor Governmental Funds to the General Fund for (1) a \$35,000 transfer from Occupancy Tax Fund to provide funding for recreational expenses, and (2) a \$34,667 transfer from Kerner Mill Greenway Capital Projects Ordinance Fund for street projects.

\$ 69,667

\$ 1,218,297

D. Total fund balance - General Fund

\$11,439,966

Less:

Prepaid assets	\$	16,479
Stabilization by state statute		1,610,508
Capital equipment		561,204
Capital projects		1,120,723
Appropriated fund balance in 2013 budget		397,654
Working capital / fund balance policy		5,298,954
Remaining fund balance		2,434,444

**Note 3. 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>	<u>Increase (Decrease)</u>		<u>Exhibit 6</u>
General government	\$ 3,189,818	\$ 113,551	(1)	\$ 3,303,369
Public safety	11,336,191	440,261	(1)	11,776,452
Public service	6,679,349	313,470	(1)	6,992,819
Culture and recreation	1,274,517	39,077	(1)	1,313,594
Debt service	-	1,123,240	(1)	1,123,240
Principal retirement	1,664,735	(1,664,735)	(1)	-
Interest and fiscal charges	364,864	(364,864)	(1)	-

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



**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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**Note 4. Jointly Governed Organizations**

The Town, in conjunction with six counties and 25 other municipalities, established the Piedmont Triad Partnership. The participating governments established the Partnership to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Partnership's governing board. The Town paid membership fees of \$3,780 to the Partnership during the fiscal year ended June 30, 2013.

The Town, along with two other municipalities, is also a participating member of the Forsyth Municipal ABC Board. This organization was established under North Carolina Alcoholic Beverage laws to operate ten liquor stores. The Town of Kernersville appoints one member to a five-member governing board. The Town also receives a portion of the income distributed by the Board. This distribution amounted to \$267,468 during the fiscal year ended June 30, 2013.

**Note 5. 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 6. Change in Accounting Principles**

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position, and Statement 65, Items Previously Reported as Assets and Liabilities, in the fiscal year ended June 30, 2013. In accordance with GASB Statement 63, The Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified as Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position. The implementation of these standards had no impact on fund balance or net position as previously reported.

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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.

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

Exhibit A-1

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b) - (a)</b>	<b>Funded Ratio (a) ÷ (b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b) - (a)) ÷ (c)</b>
12/31/03	\$ -	\$ 552,438	\$ 552,438	0.00%	\$ 1,972,702	28.00%
12/31/04	-	582,404	582,404	0.00%	2,181,145	26.70%
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%

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

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Exhibit A-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Annual Percentage Contributed</u>
2004	\$ 62,023	15.02%
2005	68,530	13.60%
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%

**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, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 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

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b) - (a)</b>	<b>Funded Ratio (a) ÷ (b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b) - (a)) ÷ (c)</b>
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%

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

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Exhibit B-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Annual Percentage Contributed</u>
2009	\$ 726,771	9.00%
2010	745,445	9.50%
2011	775,773	13.30%
2012	903,727	8.70%
2013	930,839	11.70%

**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, 2012
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	8.50% - 5.00%
* Includes inflation at:	3.00%
Cost of living adjustments	N/A

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***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, 2013**

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	\$ 12,453,759	\$ 12,673,695	\$ 219,936
Prior	175,000	211,352	36,352
	<u>12,628,759</u>	<u>12,885,047</u>	<u>256,288</u>
Other taxes and licenses:			
Local vehicle fees tax	95,500	99,444	3,944
Cablevision fees	49,735	52,081	2,346
	<u>145,235</u>	<u>151,525</u>	<u>6,290</u>
Unrestricted intergovernmental:			
Solid waste disposal tax	18,001	13,396	(4,605)
Utility franchise	844,826	897,127	52,301
Telecommunications tax	285,982	269,724	(16,258)
Alcohol beverage tax	293,213	363,487	70,274
Hold harmless distribution	700,000	644,336	(55,664)
Local option sales and use tax	3,733,879	3,702,977	(30,902)
Rental vehicle fees	20,400	45,997	25,597
Video programming	284,317	257,625	(26,692)
	<u>6,180,618</u>	<u>6,194,669</u>	<u>14,051</u>
Restricted intergovernmental:			
Powell Bill	635,636	635,636	-
Governor's Highway Safety Grant	63,350	71,400	8,050
State DENR grants	83,274	70,323	(12,951)
State Transportation grants	1,680,828	782,763	(898,065)
Federal Department of Justice grants	12,000	14,082	2,082
Homeland Security Grant	16,240	18,978	2,738
	<u>2,491,328</u>	<u>1,593,182</u>	<u>(898,146)</u>
Penalties and interest:			
Penalties and interest	60,000	46,237	(13,763)
Investment earnings	21,000	11,919	(9,081)
	<u>81,000</u>	<u>58,156</u>	<u>(22,844)</u>
Contributions and donations	<u>1,606,367</u>	<u>956,391</u>	<u>(649,976)</u>
Other general revenues:			
Other	<u>22,512</u>	<u>49,704</u>	<u>27,192</u>
Total general revenues	<u>23,155,819</u>	<u>21,888,674</u>	<u>(1,267,145)</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, 2013**

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	\$ 245,320	\$ 202,376	\$ (42,944)
Parking fines	500	1,825	1,325
Court facility fees	23,500	25,307	1,807
Rent on town property	421,103	368,165	(52,938)
Building inspections	165,000	269,514	104,514
Zoning fees	20,000	40,263	20,263
Recycling revenue	204,812	209,521	4,709
Commercial industrial collection fees	703,976	680,113	(23,863)
Other functionally related fees	499,282	445,017	(54,265)
Total functionally related revenues	<u>2,283,493</u>	<u>2,242,101</u>	<u>(41,392)</u>
Total revenues	<u>25,439,312</u>	<u>24,130,775</u>	<u>(1,308,537)</u>
Expenditures:			
Current:			
General government:			
Governing body:			
Personnel services		24,086	
Other operating expenditures		400,026	
Installment purchase agreement payments		69,533	
	<u>550,313</u>	<u>493,645</u>	<u>56,668</u>
Administrative:			
Personnel services		255,086	
Other operating expenditures		29,187	
	<u>292,011</u>	<u>284,273</u>	<u>7,738</u>
Finance:			
Personnel services		427,784	
Other operating expenditures		282,990	
Installment purchase agreement payments		5,568	
	<u>748,537</u>	<u>716,342</u>	<u>32,195</u>
Information technology:			
Personnel services		229,948	
Other operating expenditures		119,658	
Installment purchase agreement payments		18,637	
	<u>376,448</u>	<u>368,243</u>	<u>8,205</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, 2013**

Schedule 1  
Page 3 of 5

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Planning and zoning:			
Personnel services		\$ 256,153	
Other operating expenditures		201,291	
	<u>\$ 471,446</u>	<u>457,444</u>	<u>\$ 14,002</u>
Personnel:			
Personnel services		417,016	
Other operating expenditures		121,650	
	<u>579,498</u>	<u>538,666</u>	<u>40,832</u>
General services:			
Personnel services		136,642	
Other operating expenditures		288,301	
Installment purchase agreement payments		19,813	
	<u>510,048</u>	<u>444,756</u>	<u>65,292</u>
Total general government	<u>3,528,301</u>	<u>3,303,369</u>	<u>224,932</u>
Public safety:			
Police department:			
Personnel services		5,436,417	
Other operating expenditures		618,251	
Capital outlay		120,005	
Installment purchase agreement payments		274,343	
	<u>6,647,192</u>	<u>6,449,016</u>	<u>198,176</u>
Fire department:			
Personnel services		4,126,254	
Other operating expenditures		589,692	
Capital outlay		110,545	
Installment purchase agreement payments		165,918	
	<u>5,255,936</u>	<u>4,992,409</u>	<u>263,527</u>
Inspections:			
Personnel services		314,633	
Other operating expenditures		20,394	
	<u>360,106</u>	<u>335,027</u>	<u>25,079</u>
Total public safety	<u>12,263,234</u>	<u>11,776,452</u>	<u>486,782</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, 2013**

Schedule 1  
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	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public service:			
Engineering department:			
Personnel services		\$ 186,912	
Other operating expenditures		50,358	
	<u>\$ 824,617</u>	<u>237,270</u>	<u>\$ 587,347</u>
Street department:			
Personnel services		737,814	
Other operating expenditures		745,468	
Capital outlay		7,998	
	<u>1,627,366</u>	<u>1,491,280</u>	<u>136,086</u>
Transportation department:			
Personnel services		218,947	
Other operating expenditures		396,084	
Capital outlay		360,477	
Installment purchase agreement payments		63,912	
	<u>2,231,127</u>	<u>1,039,420</u>	<u>1,191,707</u>
Sanitation department:			
Personnel services		929,036	
Other operating expenditures		950,292	
Capital outlay		496,936	
Installment purchase agreement payments		249,558	
	<u>2,746,497</u>	<u>2,625,822</u>	<u>120,675</u>
Public works administration:			
Personnel services		292,306	
Other operating expenditures		31,737	
	<u>321,989</u>	<u>324,043</u>	<u>(2,054)</u>
Central maintenance:			
Personnel services		427,846	
Other operating expenditures		847,138	
	<u>1,478,121</u>	<u>1,274,984</u>	<u>203,137</u>
Total public service	<u>9,229,717</u>	<u>6,992,819</u>	<u>2,236,898</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, 2013**

Schedule 1  
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	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Cultural and recreational:			
Recreation department:			
Personnel services		\$ 562,138	
Other operating expenditures		630,940	
Capital outlay		36,284	
Installment purchase agreement payments		39,077	
	<u>\$ 1,406,813</u>	<u>1,268,439</u>	<u>\$ 138,374</u>
Paddison Library:			
Other operating expenditures		45,155	
	<u>66,708</u>	<u>45,155</u>	<u>21,553</u>
Total cultural and recreational	<u>1,473,521</u>	<u>1,313,594</u>	<u>159,927</u>
Debt service:			
Principal retirement	800,000	800,000	-
Interest and fiscal charges	<u>323,240</u>	<u>323,240</u>	<u>-</u>
Total debt service	<u>1,123,240</u>	<u>1,123,240</u>	<u>-</u>
Total expenditures	<u>27,618,013</u>	<u>24,509,474</u>	<u>3,108,539</u>
Revenues under expenditures	<u>(2,178,701)</u>	<u>(378,699)</u>	<u>1,800,002</u>
Other financing sources (uses):			
Transfers from other funds:			
Occupancy Tax Fund	35,000	35,000	-
Kerner Mill Greenway Capital Projects Ordinance Fund	104,000	34,667	(69,333)
Stormwater Fund	344,121	344,121	-
Capital Reserve Fund	255	255	-
Transfers to other funds:			
Emergency Telephone System Fund	(32,651)	(32,651)	-
Contributions Fund	(62,568)	(62,568)	-
Stormwater Fund	(213,440)	(213,440)	-
Capital Reserve Fund	<u>(494,487)</u>	<u>(494,487)</u>	<u>-</u>
Total net transfers	<u>(319,770)</u>	<u>(389,103)</u>	<u>(69,333)</u>
Installment purchase financing proceeds	1,915,500	1,905,500	(10,000)
Sale of capital assets	<u>175,000</u>	<u>107,250</u>	<u>(67,750)</u>
Total other financing sources	<u>1,770,730</u>	<u>1,623,647</u>	<u>(147,083)</u>
Revenues and other sources over (under) expenditures and other uses	<u>(407,971)</u>	1,244,948	1,652,919
Appropriated fund balance	<u>407,971</u>	<u>-</u>	<u>(407,971)</u>
Revenues, other sources and appropriated fund balance over expenditures and other uses	<u>\$ -</u>	1,244,948	<u>\$ 1,244,948</u>
Fund balance, beginning		<u>9,074,295</u>	
Fund balance, ending		<u>\$ 10,319,243</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, 2013**

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	\$ 200	\$ 255	\$ 286	\$ 31
Expenditures:				
Capital reserve expenditures	<u>54,014</u>	<u>495,595</u>	<u>-</u>	<u>495,595</u>
Revenues over (under)				
expenditures	<u>(53,814)</u>	<u>(495,340)</u>	<u>286</u>	<u>495,626</u>
Other financing sources (uses):				
Transfers in:				
General Fund	54,014	494,487	494,487	-
Stormwater Fund	-	1,108	1,108	-
Transfers out:				
General Fund	<u>(200)</u>	<u>(255)</u>	<u>(255)</u>	<u>-</u>
Total other financing sources	53,814	495,340	495,340	-
Revenues and other				
sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	495,626	<u>\$ 495,626</u>
Fund balance, beginning			<u>625,097</u>	
Fund balance, ending			<u>\$ 1,120,723</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, 2013**

	<b>Nonmajor Special Revenue Funds</b>		
	<b>Occupancy Tax Fund</b>	<b>Emergency Telephone System Fund</b>	<b>Contributions Fund</b>
<b>ASSETS</b>			
Cash and investments	\$ 23,956	\$ 75,691	\$ 84,329
Due from other governments	8,363	-	-
Total assets	<u>\$ 32,319</u>	<u>\$ 75,691</u>	<u>\$ 84,329</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ 21	\$ -
Total liabilities	<u>-</u>	<u>21</u>	<u>-</u>
Fund balances:			
Restricted			
Stabilization by state statute	8,363	21	-
Tourism	15,463	-	-
Public safety	-	2,894	-
Drug education	-	-	81,554
Committed			
Capital projects	-	-	-
Assigned			
Subsequent year's expenditures	8,493	72,755	2,775
Total fund balances	<u>32,319</u>	<u>75,670</u>	<u>84,329</u>
Total liabilities and fund balances	<u>\$ 32,319</u>	<u>\$ 75,691</u>	<u>\$ 84,329</u>

<u>Nonmajor Special Revenue Funds</u>		<u>Nonmajor Capital Project 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>	<u>Total Nonmajor Governmental Funds</u>
\$ 343,573	\$ 599	\$ 555,640	\$ 164,089	\$ 1,247,877
-	-	-	-	8,363
<u>\$ 343,573</u>	<u>\$ 599</u>	<u>\$ 555,640</u>	<u>\$ 164,089</u>	<u>\$ 1,256,240</u>
\$ -	\$ -	\$ -	\$ -	\$ 21
-	-	-	-	21
-	-	-	-	8,384
-	-	-	-	15,463
150,303	-	-	-	153,197
-	-	-	-	81,554
-	-	555,640	164,089	719,729
<u>193,270</u>	<u>599</u>	<u>-</u>	<u>-</u>	<u>277,892</u>
<u>343,573</u>	<u>599</u>	<u>555,640</u>	<u>164,089</u>	<u>1,256,219</u>
<u>\$ 343,573</u>	<u>\$ 599</u>	<u>\$ 555,640</u>	<u>\$ 164,089</u>	<u>\$ 1,256,240</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, 2013**

	<b>Nonmajor Special Revenue Funds</b>		
	<b>Occupancy Tax Fund</b>	<b>Emergency Telephone System Fund</b>	<b>Contributions Fund</b>
Revenues:			
Other taxes and licenses	\$ 95,952	\$ -	\$ -
Restricted intergovernmental	-	32,000	-
Investment earnings	29	-	14
Contributions and donations	-	-	45,756
Total revenues	<u>95,981</u>	<u>32,000</u>	<u>45,770</u>
Expenditures:			
Public safety	-	40,010	4,651
Cultural and recreational	80,000	-	65,810
Debt service:			
Principal	-	38,291	-
Interest and other charges	-	2,437	-
Total expenditures	<u>80,000</u>	<u>80,738</u>	<u>70,461</u>
Revenues over (under) expenditures	<u>15,981</u>	<u>(48,738)</u>	<u>(24,691)</u>
Other financing sources (uses):			
Transfers in:			
General Fund	-	32,651	62,568
Transfers out:			
General Fund	<u>(35,000)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(35,000)</u>	<u>32,651</u>	<u>62,568</u>
Revenues and other sources over (under) expenditures and other uses	<u>(19,019)</u>	<u>(16,087)</u>	<u>37,877</u>
Fund balances, beginning	<u>51,338</u>	<u>91,757</u>	<u>46,452</u>
Fund balances, ending	<u>\$ 32,319</u>	<u>\$ 75,670</u>	<u>\$ 84,329</u>

<u>Nonmajor Special Revenue Funds</u>		<u>Nonmajor Capital Project 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>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 95,952
297,994	5,001	-	-	334,995
121	-	217	93	474
-	-	-	-	45,756
<u>298,115</u>	<u>5,001</u>	<u>217</u>	<u>93</u>	<u>477,177</u>
303,097	4,989	-	-	352,747
-	-	-	44,719	190,529
-	-	-	-	38,291
-	-	-	-	2,437
<u>303,097</u>	<u>4,989</u>	<u>-</u>	<u>44,719</u>	<u>584,004</u>
<u>(4,982)</u>	<u>12</u>	<u>217</u>	<u>(44,626)</u>	<u>(106,827)</u>
-	-	-	-	95,219
-	-	-	(34,667)	(69,667)
-	-	-	(34,667)	25,552
(4,982)	12	217	(79,293)	(81,275)
<u>348,555</u>	<u>587</u>	<u>555,423</u>	<u>243,382</u>	<u>1,337,494</u>
<u>\$ 343,573</u>	<u>\$ 599</u>	<u>\$ 555,640</u>	<u>\$ 164,089</u>	<u>\$ 1,256,219</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, 2013**

Schedule 5

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Revenues:				
Other taxes and licenses:				
Occupancy tax			\$ 95,952	
Investment earnings			29	
Total revenues	\$ 84,432	\$ 84,432	95,981	\$ 11,549
Expenditures:				
Cultural and recreational			80,000	
Total expenditures	64,500	80,000	80,000	-
Revenues over expenditures	19,932	4,432	15,981	11,549
Other financing uses:				
Transfers out:				
General Fund	(35,000)	(35,000)	(35,000)	-
Revenues under expenditures and other uses	(15,068)	(30,568)	(19,019)	11,549
Appropriated fund balance	15,068	30,568	-	(30,568)
Revenues and appropriated fund balance under expenditures and other uses	\$ -	\$ -	(19,019)	\$ (19,019)
Fund balance, beginning			51,338	
Fund balance, ending			\$ 32,319	

**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, 2013**

Schedule 6

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
Revenues:				
Restricted intergovernmental			\$ 32,000	
Total revenues	\$ 32,000	\$ 32,000	32,000	\$ -
Expenditures:				
Public safety:				
Other operating expenditures			40,010	
Debt service:				
Principal retirement			38,291	
Interest and other charges			2,437	
Total expenditures	82,697	82,697	80,738	1,959
Revenues under expenditures	(50,697)	(50,697)	(48,738)	1,959
Other financing sources:				
Transfers in:				
General Fund	-	32,651	32,651	-
Total other financing sources	-	32,651	32,651	-
Revenues and other sources under expenditures	(50,697)	(18,046)	(16,087)	1,959
Appropriated fund balance	50,697	18,046	-	(18,046)
Revenues, other sources, and appropriated fund balance over (under) expenditures	\$ -	\$ -	(16,087)	\$ (16,087)
Fund balance, beginning			91,757	
Fund balance, ending			\$ 75,670	

**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, 2013**

Schedule 7

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Revenues:				
Investment earnings			\$ 14	
Contributions and donations			45,756	
Total revenues	\$ 3,550	\$ 38,050	45,770	\$ 7,720
Expenditures:				
Public safety			4,651	
Cultural and recreational			65,810	
Total expenditures	6,100	71,435	70,461	974
Revenues under expenditures	(2,550)	(33,385)	(24,691)	8,694
Other financing sources:				
Transfers in:				
General Fund			62,568	
Total other financing sources	-	27,568	62,568	35,000
Revenues and other sources over (under) expenditures	(2,550)	(5,817)	37,877	43,694
Appropriated fund balance	2,550	5,817	-	(5,817)
Revenues, other sources, and appropriated fund balance over expenditures	<u>\$ -</u>	<u>\$ -</u>	37,877	<u>\$ 37,877</u>
Fund balance, beginning			46,452	
Fund balance, ending			<u>\$ 84,329</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, 2013**

Schedule 8

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>		<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
Revenues:				
Restricted intergovernmental			\$ 297,994	
Investment earnings			121	
Total revenues	\$ 19,418	\$ 288,353	298,115	\$ 9,762
Expenditures:				
Public safety			303,097	
Total expenditures	288,745	479,389	303,097	176,292
Revenues under expenditures	(269,327)	(191,036)	(4,982)	186,054
Appropriated fund balance	269,327	191,036	-	(191,036)
Revenues and appropriated				
fund balance under expenditures	\$ -	\$ -	(4,982)	\$ (4,982)
Fund balance, beginning			348,555	
Fund balance, ending			\$ 343,573	

**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, 2013**

Schedule 9

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
Revenues:				
Restricted intergovernmental			\$ 5,001	
Total revenues	\$ -	\$ 5,001	5,001	\$ -
Expenditures:				
Public safety			4,989	
Total expenditures	-	5,001	4,989	12
Revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	12	<u>\$ 12</u>
Fund balance, beginning			587	
Fund balance, ending			<u>\$ 599</u>	

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**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, 2013**

Schedule 10

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Investment earnings	\$ 27,076	\$ 26,865	\$ 217	\$ 27,082	\$ 6
Total revenues	27,076	26,865	217	27,082	6
Expenditures:					
Public service:					
Capital development					
Other operating expenditures	449,057	443,768	-	443,768	5,289
Total public service	449,057	443,768	-	443,768	5,289
Cultural and recreational:					
Capital development					
Capital outlay	550,345	-	-	-	550,345
Total cultural and recreational	550,345	-	-	-	550,345
Total expenditures	999,402	443,768	-	443,768	555,634
Revenues over (under) expenditures	(972,326)	(416,903)	217	(416,686)	555,640
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	972,326	972,326	-	972,326	-
Revenues and other sources over expenditures	\$ -	\$ 555,423	217	\$ 555,640	\$ 555,640
Fund balance, beginning			555,423		
Fund balance, ending			\$ 555,640		

## TOWN OF KERNERSVILLE, NORTH CAROLINA

Schedule 11

## 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, 2013**

	<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	\$ 1,290,000	\$ -	\$ -	\$ -	\$ (1,290,000)
Investment earnings	-	9	93	102	102
Total revenues	<u>1,290,000</u>	<u>9</u>	<u>93</u>	<u>102</u>	<u>(1,289,898)</u>
Expenditures:					
Cultural and recreational:					
Other operating expenditures	145,900	60,766	44,719	105,485	40,415
Capital outlay	<u>1,378,906</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,378,906</u>
Total cultural and recreational	<u>1,524,806</u>	<u>60,766</u>	<u>44,719</u>	<u>105,485</u>	<u>1,419,321</u>
Total expenditures	<u>1,524,806</u>	<u>60,766</u>	<u>44,719</u>	<u>105,485</u>	<u>1,419,321</u>
Revenues under expenditures	<u>(234,806)</u>	<u>(60,757)</u>	<u>(44,626)</u>	<u>(105,383)</u>	<u>129,423</u>
Other financing sources (uses):					
Transfers in:					
General Fund	338,806	338,806	-	338,806	-
Transfers out:					
General Fund	<u>(104,000)</u>	<u>(34,667)</u>	<u>(34,667)</u>	<u>(69,334)</u>	<u>34,666</u>
Total other financing sources (uses)	<u>234,806</u>	<u>304,139</u>	<u>(34,667)</u>	<u>269,472</u>	<u>34,666</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 243,382</u>	<u>(79,293)</u>	<u>\$ 164,089</u>	<u>\$ 164,089</u>
Fund balance, beginning			<u>243,382</u>		
Fund balance, ending			<u>\$ 164,089</u>		

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**STORMWATER ENTERPRISE FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL**  
**For the Year Ended June 30, 2013**

Schedule 12

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Charges for services		\$ 988,820	
Investment earnings		353	
Total revenues	<u>\$ 959,750</u>	<u>989,173</u>	<u>\$ 29,423</u>
Expenditures:			
Personnel services		362,396	
Other operating expenditures		278,758	
Capital outlay		25,400	
Debt service payments		38,821	
Total expenditures	<u>1,415,950</u>	<u>705,375</u>	<u>710,575</u>
Revenues over (under) expenditures	<u>(456,200)</u>	<u>283,798</u>	<u>739,998</u>
Other financing sources (uses):			
Transfers in:			
General Fund		213,440	
Transfers out:			
General Fund		(344,121)	
Capital Reserve Fund		(1,108)	
Total other financing uses	<u>(131,789)</u>	<u>(131,789)</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>(587,989)</u>	<u>152,009</u>	<u>739,998</u>
Appropriated fund balance	<u>587,989</u>	<u>-</u>	<u>(587,989)</u>
Revenues and appropriated fund balance over expenditures and other uses	<u>\$ -</u>	<u>152,009</u>	<u>\$ 152,009</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		25,400	
Debt principal		37,621	
Depreciation		(53,396)	
Total reconciling items		<u>9,625</u>	
Change in net position		<u>\$ 161,634</u>	

**TOWN OF KERNERSVILLE, NORTH CAROLINA  
WORKERS' COMP SELF-INSURANCE FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
FINANCIAL PLAN AND ACTUAL  
For the Year Ended June 30, 2013**

Schedule 13

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 277,122	\$ 277,122	\$ -
Nonoperating revenues:			
Investment earnings	100	109	9
Total revenues	<u>277,222</u>	<u>277,231</u>	<u>9</u>
Expenditures:			
Claims		205,384	
Stop-loss coverage		60,494	
Administration		7,740	
Total expenditures	<u>277,222</u>	<u>273,618</u>	<u>3,604</u>
Revenues over expenditures	<u>\$ -</u>	3,613	<u>\$ 3,613</u>
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Reduction of claims reserve		7,600	
Change in net position		<u>\$ 11,213</u>	

***SUPPLEMENTARY INFORMATION:***

***OTHER SCHEDULES***

This section contains additional information on property taxes.

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

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**SCHEDULE OF AD VALOREM TAXES RECEIVABLE**  
**June 30, 2013**

Schedule 14

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2012</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2013</u>
2012-13	\$ -	\$ 13,178,975	\$ 12,953,063	\$ 225,912
2011-12	293,119	-	192,217	100,902
2010-11	119,833	-	34,143	85,690
2009-10	71,593	-	11,320	60,273
2008-09	58,473	-	27,799	30,674
2007-08	10,515	-	2,204	8,311
2006-07	7,019	-	3	7,016
2005-06	10,537	-	3	10,534
2004-05	8,497	-	-	8,497
2003-04	12,351	-	-	12,351
2002-03	10,031	-	10,031	-
	<u>\$ 601,968</u>	<u>\$ 13,178,975</u>	<u>\$ 13,230,783</u>	550,160

Less allowance for uncollectible accounts:  
General Fund

(73,000)

\$ 477,160

Reconciliation of Collections and Credits with Revenues:

Ad valorem taxes - General Fund	\$ 12,885,047
Vehicle fees - General Fund	99,444
Recycling revenue - General Fund	209,521
Refunds	(5,770)
Releases	32,510
Amounts written off for tax year 2002-2003 per statute of limitations	<u>10,031</u>
	<u>\$ 13,230,783</u>



**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**ANALYSIS OF CURRENT TAX LEVY**  
**June 30, 2013**

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	\$ 2,354,144,322	\$ 0.4975	\$ 11,711,868	\$ 10,788,651	\$ 923,217
Discoveries:					
Current year taxes	246,257,889	0.4975	1,225,133	1,202,519	22,614
Total gross levy			12,937,001	11,991,170	945,831
Recycling fees	-		209,174	209,174	-
Vehicle tag fees	-		103,360	-	103,360
Total property valuation	<u>\$ 2,600,402,211</u>				
Total levy			13,249,535	12,200,344	1,049,191
Less releases			(70,560)	(57,710)	(12,850)
Net levy			13,178,975	12,142,634	1,036,341
Uncollected taxes at June 30, 2013			(225,912)	(118,206)	(107,706)
Current year's taxes collected			<u>\$ 12,953,063</u>	<u>\$ 12,024,428</u>	<u>\$ 928,635</u>
Current levy collection percentage			<u>98.29%</u>	<u>99.03%</u>	<u>89.61%</u>

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***SUPPLEMENTARY INFORMATION:***  
***STATISTICAL SECTION***

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## STATISTICAL SECTION

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.

<b><u>CONTENTS</u></b>	<b><u>PAGE</u></b>
<b>FINANCIAL TRENDS INFORMATION</b> - these schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	<b>98</b>
<b>REVENUE CAPACITY INFORMATION</b> - these schedules contain information to help the reader assess the Town's most significant local revenue sources, property taxes and water and sewer charges.	<b>103</b>
<b>DEBT CAPACITY INFORMATION</b> - 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.	<b>108</b>
<b>DEMOGRAPHIC AND ECONOMIC INFORMATION</b> - these schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.	<b>112</b>
<b>OPERATING INFORMATION</b> - 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.	<b>115</b>

**Sources:** *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Town implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.*

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

**Table 1**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Net investment in capital assets	\$ 105,708,231	\$ 111,007,303	\$ 113,593,853	\$ 118,273,491	\$ 124,714,812	\$ 124,490,834	\$ 123,530,664	\$ 124,206,117	\$ 122,184,493	\$ 119,209,937
Restricted	-	-	-	-	-	-	-	1,687,385	2,450,611	1,618,871
Unrestricted	7,281,128	3,050,839	3,777,736	4,041,505	6,243,831	4,638,537	3,231,105	1,293,180	(1,300,310)	733,451
Total governmental activities net position	112,989,359	114,058,142	117,371,589	122,314,996	130,958,643	129,129,371	126,761,769	127,186,682	123,334,794	121,562,259
Business-type activities										
Net investment in capital assets	-	-	-	213,400	238,677	330,429	321,492	304,776	229,098	238,723
Unrestricted	-	-	-	158,751	546,588	494,794	435,601	503,485	749,343	901,352
Total business-type activities net position	-	-	-	372,151	785,265	825,223	757,093	808,261	978,441	1,140,075
Primary government										
Net investment in capital assets	105,708,231	111,007,303	113,593,853	118,486,891	124,953,489	124,821,263	123,852,156	124,510,893	122,413,591	119,448,660
Restricted	-	-	-	-	-	-	-	1,687,385	2,450,611	1,618,871
Unrestricted	7,281,128	3,050,839	3,777,736	4,200,256	6,790,419	5,133,331	3,666,706	1,796,665	(550,967)	1,634,803
Total primary government net position	\$ 112,989,359	\$ 114,058,142	\$ 117,371,589	\$ 122,687,147	\$ 131,743,908	\$ 129,954,594	\$ 127,518,862	\$ 127,994,943	\$ 124,313,235	\$ 122,702,334

Source: Statement of Net Assets (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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Expenses</b>										
Governmental activities:										
General government	\$ 2,041,968	\$ 2,172,639	\$ 2,220,028	\$ 3,981,548	\$ 2,651,806	\$ 2,892,008	\$ 2,956,581	\$ 2,851,088	\$ 4,139,013	\$ 4,168,945
Public safety	7,722,329	8,090,971	10,309,964	8,461,213	10,108,426	11,232,997	12,362,244	11,892,407	12,774,638	11,782,579
Public services	12,029,947	10,331,601	9,982,340	6,102,388	8,748,345	10,566,004	8,460,438	8,420,247	8,087,763	8,575,454
Culture and recreation	958,922	952,068	1,122,586	1,277,981	1,224,228	1,288,066	1,306,327	1,455,623	1,544,984	1,606,921
Interest on long-term debt	422,413	472,930	707,314	691,913	620,311	584,278	494,302	448,776	396,651	377,849
Total governmental activities expenses	23,175,579	22,020,209	24,342,232	20,515,043	23,353,116	26,563,353	25,579,892	25,068,141	26,943,049	26,511,748
Business-type activities:										
Stormwater management	-	-	-	505,780	453,687	641,403	740,532	615,230	659,424	695,750
Total business-type activities	-	-	-	505,780	453,687	641,403	740,532	615,230	659,424	695,750
Total primary government expenses	23,175,579	22,020,209	24,342,232	21,020,823	23,806,803	27,204,756	26,320,424	25,683,371	27,602,473	27,207,498
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	119,560	214,377	189,589	318,664	110,324	236,157	190,051	238,988	251,053	335,490
Public safety	121,660	101,287	167,410	127,399	231,401	223,562	272,264	234,847	167,073	157,045
Public services	864,327	881,142	1,080,771	1,066,985	1,415,265	1,328,114	1,133,576	1,208,031	1,433,066	1,467,440
Culture and recreation	142,458	164,897	245,795	168,752	290,617	243,012	259,428	284,283	267,114	282,126
Operating grants and contributions	1,236,320	1,109,107	1,180,247	1,488,885	1,797,274	1,589,830	1,770,876	1,888,145	2,871,690	2,930,324
Capital grants and contributions	1,153,047	5,143,230	6,872,024	4,328,734	7,891,645	1,857,585	429,109	2,145,173	248,058	162,253
Total governmental activities program revenues	3,637,372	7,614,040	9,735,836	7,499,419	11,736,526	5,478,260	4,055,304	5,999,467	5,238,054	5,334,678
Business-type activities:										
Charges for services:	-	-	-	887,040	919,345	934,110	946,303	955,981	1,006,712	988,820
Capital grants and contributions	-	-	-	32,279	-	-	9,028	-	-	-
Total business-type activities program revenues	-	-	-	919,319	919,345	934,110	955,331	955,981	1,006,712	988,820
Total primary government program revenues	3,637,372	7,614,040	9,735,836	8,418,738	12,655,871	6,412,370	5,010,635	6,955,448	6,244,766	6,323,498

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

Table 2  
Page 2 of 2

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General revenues and other changes in net assets										
Governmental activities:										
Taxes										
Property taxes	\$ 8,695,241	\$ 9,487,453	\$ 10,551,391	\$ 11,563,965	\$ 12,276,712	\$ 12,587,826	\$ 12,741,009	\$ 12,817,420	\$ 12,696,485	\$ 12,883,905
Other taxes	491,060	526,137	607,479	917,167	339,268	228,614	229,200	232,061	246,837	247,477
Unrestricted intergovernmental revenue	4,961,678	5,117,674	5,493,952	5,327,277	6,477,866	5,792,713	5,810,076	5,993,815	6,200,440	6,194,669
Investments earnings, unrestricted	78,784	241,506	471,781	706,151	545,258	200,302	49,505	22,952	16,355	12,787
Transfers	-	-	-	58,311	68,847	263,845	283,845	290,330	177,330	131,789
Gain (loss) on disposal of capital assets	-	-	-	-	422,635	-	(23,524)	38,642	(1,581,296)	(115,866)
Capital contributions from developers	272,937	-	-	-	-	-	-	-	-	-
Donations of infrastructure	3,219,679	-	-	-	-	-	-	-	-	-
Miscellaneous	81,237	102,182	5,571	175,828	129,651	182,521	66,875	98,367	96,956	49,774
Total governmental activities	17,800,616	15,474,952	17,130,174	18,748,699	20,260,237	19,255,821	19,156,986	19,493,587	17,853,107	19,404,535
Business-type activities:										
Investments earnings, unrestricted	-	-	-	16,924	16,299	11,096	916	747	222	353
Transfers	-	-	-	(58,311)	(68,847)	(263,845)	(283,845)	(290,330)	(177,330)	(131,789)
Miscellaneous	-	-	-	-	4	-	-	-	-	-
Total business-type activities	-	-	-	(41,387)	(52,544)	(252,749)	(282,929)	(289,583)	(177,108)	(131,436)
Total primary government program revenues	17,800,616	15,474,952	17,130,174	18,707,312	20,207,693	19,003,072	18,874,057	19,204,004	17,675,999	19,273,099
Change in net position										
Governmental activities	(1,737,591)	1,068,783	2,523,778	5,733,075	8,643,647	(1,829,272)	(2,367,602)	424,913	(3,851,888)	(1,772,535)
Business activities	-	-	-	372,152	413,114	39,958	(68,130)	51,168	170,180	161,634
Total primary government change in net assets	(1,737,591)	1,068,783	2,523,778	6,105,227	9,056,761	(1,789,314)	(2,435,732)	476,081	(3,681,708)	(1,610,901)
Net position - beginning	* 114,726,950	112,989,359	114,058,142	* 116,581,920	122,687,147	131,743,908	129,954,594	127,518,862	127,994,943	124,313,235
Net position - ending	\$ 112,989,359	\$ 114,058,142	\$ 116,581,920	\$ 122,687,147	\$ 131,743,908	\$ 129,954,594	\$ 127,518,862	\$ 127,994,943	\$ 124,313,235	\$ 122,702,334

Notes: \* Restated Net Assets

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



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

**Table 3**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved	\$ 1,491,785	\$ 1,475,320	\$ 2,514,747	\$ 1,782,385	\$ 1,843,203	\$ 1,685,444	\$ 1,745,510	N/A	N/A	N/A
Unreserved	6,410,472	6,143,912	5,094,836	5,859,677	8,032,164	7,711,465	7,214,136	N/A	N/A	N/A
Non-spendable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 22,917	\$ 14,490	\$ 16,479
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,588,285	2,939,846	2,171,712
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	147,933	625,097	1,120,723
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	302,337	500,654	397,654
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7,034,981	5,619,305	7,733,398
Total general fund	<u>7,902,257</u>	<u>7,619,232</u>	<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>
All other governmental funds										
Reserved	233,009	200,877	628,635	36,154	38,724	219,342	144,729	N/A	N/A	N/A
Unreserved, reported in:										
Special revenue funds	641,243	426,552	1,540,238	1,067,588	666,922	639,156	342,578	N/A	N/A	N/A
Capital projects funds	3,675,233	2,432,540	2,677,188	3,811,937	4,222,041	2,723,237	2,190,716	N/A	N/A	N/A
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	429,216	200,460	258,598
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,766,051	798,805	719,729
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	119,429	338,229	277,892
Total all other governmental funds	<u>4,549,485</u>	<u>3,059,969</u>	<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>
Total fund balance	<u>\$ 12,451,742</u>	<u>\$ 10,679,201</u>	<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>

Source: 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**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Revenues by Source</b>										
Taxes (see Exhibit 4)	\$ 8,692,133	\$ 9,393,004	\$ 10,586,204	\$ 11,570,532	\$ 12,108,386	\$ 12,521,037	\$ 12,550,214	\$ 12,642,432	\$ 12,687,750	\$ 12,885,047
Other taxes and licenses	491,060	526,136	607,479	560,279	339,268	228,614	229,200	232,061	246,837	247,477
Unrestricted intergovernmental	4,961,678	5,117,674	5,493,952	6,029,846	6,477,866	5,792,713	5,810,076	5,993,815	6,200,440	6,194,669
Restricted intergovernmental	1,985,631	1,384,633	3,018,243	1,857,533	1,760,831	2,002,952	936,279	1,086,336	1,926,452	1,928,177
Penalties and interest	149,769	269,064	504,173	676,364	584,913	230,393	106,130	90,490	35,242	58,630
Contributions and donations	178,316	106,144	175,618	133,806	801,167	814,931	828,882	883,787	889,458	1,002,147
Other revenues	315,130	259,987	1,722,565	175,828	705,381	278,612	204,547	201,349	216,806	49,990
Functionally related revenues	1,248,521	1,361,703	252,232	1,630,892	2,001,435	1,940,009	1,768,038	1,894,698	2,054,306	2,242,101
Total revenues	<u>18,022,238</u>	<u>18,418,345</u>	<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>
<b>Expenditures by Function</b>										
General government	2,009,148	1,976,429	2,125,130	2,090,748	2,350,399	2,563,180	2,640,872	2,772,127	4,462,355	3,189,818
Public safety	7,921,600	8,616,209	9,122,834	9,666,545	9,781,588	10,868,418	11,506,087	11,503,502	11,613,615	11,688,938
Public service	11,511,065	10,010,327	9,086,356	7,101,508	7,911,537	9,043,625	6,243,526	6,142,344	6,423,007	6,679,349
Cultural and recreation	1,250,699	1,922,814	1,232,275	1,293,072	1,184,349	1,013,620	1,184,167	1,258,562	1,351,629	1,465,046
Debt service										
Principal retirement	1,166,436	1,282,123	2,003,590	2,121,298	2,509,023	2,403,066	2,349,438	2,052,936	1,865,247	1,703,026
Interest and fiscal charges	422,413	461,589	664,668	691,913	731,654	593,917	530,396	458,547	401,301	367,301
Total expenditures	<u>24,281,361</u>	<u>24,269,491</u>	<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>
Excess of revenue over (under) expenditures	<u>(6,259,123)</u>	<u>(5,851,146)</u>	<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>
<b>Other Financing Sources (Uses)</b>										
Proceeds from installment purchases	1,270,350	1,329,533	1,752,750	1,396,571	1,579,047	588,310	396,300	646,200	1,383,000	1,905,500
Proceeds from bonds	7,000,000	-	-	-	-	-	-	-	-	-
Proceeds from loans	4,201,294	2,935,022	-	-	-	-	-	-	-	-
Issuance of debt-loan	-	-	863,684	-	-	-	-	-	-	-
CCUC debt reimbursement	-	-	610,308	-	-	-	-	-	-	-
Prior escrow proceeds	-	-	438,718	-	-	-	-	-	-	-
Capital contributions from developers	272,937	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-	107,250
Transfers in	985,154	2,002,508	2,612,448	2,047,451	2,292,951	1,855,396	2,310,635	2,315,206	2,049,154	510,370
Transfers out	(985,154)	(2,002,508)	(2,627,078)	(2,181,921)	(1,937,387)	(1,591,551)	(2,026,790)	(2,024,876)	(1,946,554)	(378,581)
Total other financing sources	<u>12,744,581</u>	<u>4,264,555</u>	<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>
Net change in fund balances	<u>\$ 6,485,458</u>	<u>\$ (1,586,591)</u>	<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>
Capital outlay included in total expenditures	<u>\$ 4,304,678</u>	<u>\$ 3,897,881</u>	<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>\$ 2,319,265</u>
Debt service as a percentage of noncapital expenditures	8.0%	8.6%	11.9%	13.9%	14.3%	12.1%	12.2%	10.8%	9.5%	9.1%

Source Exhibit #4

**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>Property Tax</u>
2004	\$ 8,692,133
2005	9,393,004
2006	10,586,205
2007	11,570,532
2008	12,108,386
2009	12,521,037
2010	12,550,214
2011	12,642,432
2012	12,687,750
2013	12,885,047
Change from 2004 to 2013	48.2%

Note: The Town's largest revenue source is Ad Valorem Taxes. 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 98.29%.

**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 <sup>b</sup>	Guilford County <sup>b</sup>
	Basic Rate	General Obligation Streets Debt Service <sup>a</sup>	Total Direct		
2004	0.4950	-	0.4950	0.6920	-
2005	0.4750	0.05	0.5250	0.7080	-
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

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 will transfer the equivalent of five cents on the tax rate to the Transportation Fund. These funds, along with the transfer of some existing General Fund Revenues, will then be used to retire the debt generated by the sale of the long-term bonds sold on May 4, 2004.

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.

<sup>a</sup> A separate debt service fund has not been established, but revenues equal to five cents on the tax rate are transferred to the Transportation Capital Projects Ordinance Fund each year to pay the annual street bond debt.

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

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

Table 7

Taxpayer	2013			2004		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Pope Companies, Inc.	\$ 58,731,390	1	2.20%	\$ 39,444,646	1	2.23%
Deere-Hitachi Mfg. Corp.	43,719,740	2	1.34%	21,539,596	2	1.22%
Boma North Carolina, LLC	29,671,700	3	1.14%			-
Grass America, Inc.	27,539,320	4	0.99%	17,165,051	4	0.97%
DLS Kernersville, LLC	22,074,950	5	0.85%	21,130,707	3	1.20%
Wal-Mart Real Estate Bus. Trst	21,059,960	6	0.74%	15,815,354	5	0.90%
Lowes Home Centers Inc	16,812,170	7	0.92%	-		-
Duke Energy Corp	16,776,520	9	0.69%	11,457,374	10	0.65%
Roadway Express, Inc.	15,753,900	8	0.77%	12,849,293	8	0.73%
Target Corporation	14,447,150	10	-			
Foster Apartment Group, LLC	-		-	13,891,914	6	0.79%
Time Warner Cable	-		-	13,570,909	7	0.77%
Sepia, Inc. d/b/a Dudley Products	-		-	12,559,192	9	0.71%
	<u>\$ 266,586,800</u>		<u>9.64%</u>	<u>\$ 179,424,036</u>		<u>10.15%</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
2004	\$ 8,953,013	\$ 8,810,253	98.41%	\$ 128,346	\$ 8,938,599	99.84%
2005	9,746,677	9,557,501	98.06%	159,028	9,716,529	99.69%
2006	10,881,856	10,694,040	98.27%	148,067	10,842,107	99.63%
2007	11,875,246	11,699,663	98.52%	118,549	11,818,212	99.52%
2008	12,486,971	12,292,288	98.44%	155,580	12,447,868	99.69%
2009	12,901,217	12,666,973	98.18%	213,210	12,880,183	99.84%
2010	13,044,986	12,748,806	97.73%	178,188	12,926,994	99.10%
2011	13,216,546	12,881,345	97.46%	246,939	13,128,284	99.33%
2012	13,048,827	12,755,708	97.75%	192,217	12,947,925	99.23%
2013	13,178,975	12,953,063	98.29%	-	12,953,063	98.29%

Sources: Forsyth County Tax Office

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

Table 9

<b>Fiscal Year Ended June 30</b>	<b>Residential Property</b>	<b>Commercial Property</b>	<b>Industrial Property</b>	<b>Public Service Companies Property</b>	<b>Less: Tax-Exempt Property</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>	<b>Actual Taxable Value</b>	<b>Assessed Value as a Percentage of Actual Value</b>
2004	\$ 739,902,940	\$ 443,890,250	\$ 187,197,040	\$ 35,988,765	\$ 5,056,700	\$ 1,401,922,295	0.4950	\$ 1,719,330,524	81.54%
2005	777,103,470	454,462,950	187,049,050	32,903,882	5,470,400	1,446,048,952	0.5250	1,766,987,677	81.84%
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%

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.

**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 <sup>a</sup>
	General Obligation Bonds	Water and Sewer Refunding Bonds	State Revolving Loan	Term Loan Payable	Installment Purchases	Installment Purchases			
2004	\$ 7,035,000	\$ 35,000	\$ 4,201,294	\$ -	\$ 4,585,289	\$ -	\$ 4,516,375	157.18%	\$ 227
2005	6,900,000	-	7,136,316	-	4,767,698	-	15,856,583	172.87%	774
2006	6,800,000	-	7,600,000	-	5,016,524	-	18,804,014	172.01%	905
2007	6,700,000	-	7,200,000	-	4,713,122	43,398	19,416,524	156.87%	913
2008	6,350,000	-	6,800,000	-	4,533,147	6,818	18,656,520	139.34%	861
2009	6,000,000	-	6,400,000	-	3,468,391	147,111	17,689,965	120.97%	806
2010	5,600,000	-	6,000,000	-	2,315,253	109,410	16,015,502	n/a	716
2011	5,200,000	-	5,600,000	-	1,708,517	74,079	14,024,663	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	513

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

Note: <sup>1</sup> On July 1, 1995, the Town of Kernersville entered into an agreement whereby substantially all assets of the Water and Sewer Enterprise Fund were transferred to the Winston-Salem/Forsyth County Utility Commission (CCUC). Under the terms of this agreement, the Commission assumed responsibility for payment of all liabilities of the Water and Sewer Fund (including the payment of principal and interest on all Water and Sewer Fund general obligation bonds). However, these bonds remain in the name of the Town of Kernersville. The required future principal payments on this debt have been recorded in the Town's General Long-Term Debt Account Group. The Commission also received the right to charge for future water and sewer sales to Town of Kernersville residents, assumed the responsibility for future water and sewer sales to Town of Kernersville residents and assumed the responsibility for future maintenance and operation of the water and sewer system.

<sup>a</sup> 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

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Total</b>	<b>Percentage of G.O. Debt to Actual Taxable Value of Property <sup>a</sup></b>	<b>Per Capita <sup>b</sup></b>
2004	\$ 7,035,000	\$ 7,035,000	0.3981%	343.27
2005	6,900,000	6,900,000	0.3782%	332.21
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

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

<sup>a</sup> See Table 5 for property value data.

<sup>b</sup> Population data can be found in Table 14.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
**As of June 30, 2013**

Table 12

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable<sup>a &amp; b</sup></u>	<u>Estimated Share of Overlapping Debt</u>
<b>Debt repaid with property taxes</b>			
Forsyth County's general obligation debt	\$ 590,639,410	7.394%	\$ 43,671,878
Town of Kernersville's direct debt			<u>12,228,744</u>
<b>Total direct and overlapping debt</b>			<u><u>\$ 55,900,622</u></u>

<sup>a</sup> Source: Forsyth County

Notes:

1. The percentage of overlap is based on assessed property values.

<sup>b</sup> 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**

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

Table 14

<b>Calendar Year</b>	<b>Population</b> <sup>1</sup>	<b>Forsyth County Personal Income</b> <sup>1</sup>	<b>Per Capita Personal Income</b> <sup>1</sup>	<b>Median Age</b> <sup>1</sup>	<b>School Enrollment</b> <sup>2</sup>	<b>Unemployment Rate</b> <sup>3</sup>
2004	20,494	\$ 10,877,453	\$ 32,672	36.8	6,495	5.0%
2005	20,770	11,236,419	34,052	37.0	6,688	4.7%
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	N/A	N/A	37.4		9.5%

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.

<sup>1</sup> Office of State Budget and Management, Information for Forsyth County was used.

<sup>2</sup> Winston-Salem/Forsyth County School System.

<sup>3</sup> Employment Security Commission; Forsyth County rates were used.

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

Table 15

Employer	2013 <sup>1</sup>			2004 <sup>2</sup>		
	Number of Employees	Rank	Percentage of Total County Employment	Number of Employees	Rank	Percentage of Total County Employment
Wake Forest University Baptist Medical Center	12,837	1	7.7%	11,121	1	7.0%
Forsyth Medical Center and Affiliates (Novant)	8,145	2	4.9%	7,000	3	4.4%
Winston-Salem/Forsyth County School System	6,692	3	4.0%	7,020	2	4.4%
Reynolds American <sup>b</sup>	3,000	4	1.8%	5,930	5	3.8%
Wells Fargo Bank <sup>c</sup>	2,800	5	1.7%	3,400	6	2.2%
City of Winston-Salem	2,660	6	1.6%	2,600	7	1.6%
Hanesbrands, Inc. <sup>a</sup>	2,500	7	1.5%	6,000	4	3.8%
BB&T Corporation	2,200	8	1.3%	N/A		-
Forsyth County	2,029	9	1.2%	1,859	9	1.2%
Wake Forest University	1,680	10	1.0%	1,581	10	1.0%
US Airways	N/A		-	1,885	8	1.2%
Total	44,543		26.9%	48,396		30.6%

<sup>1</sup> estimates as of November 2012

<sup>2</sup> estimates as of June 2004

<sup>a</sup> formerly Sara Lee Personal Products

<sup>b</sup> formerly R.J. Reynolds Tobacco Company

<sup>c</sup> formerly Wachovia Corporation

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.

Source: Forsyth County Tax Office.

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

Table 16

<b>Function/Program</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
General government										
Governing body	6	6	6	6	6	6	6	6	6	6
Administration Department	3	2	3	4	4	3	3	3	3	3
Finance	4	4	4	4	5	5	5	5	6	6
Information Technology	1	1	1	2	2	3	3	3	3	3
Planning & Zoning	3	5	4	4	4	4	4	4	4	4
Inspections	5	5	7	6	6	6	6	6	5	5
Personnel	4	4	3	3	3	3	3	4	4	4
General Services	3	3	4	3	3	3	3	2	3	3
Police										
Officers	57	62	66	66	68	66	68	68	63	65
Civilians	15	15	18	15	16	19	15	15	20	20
Fire										
Firefighters and officers	59	65	65	67	62	67	68	68	68	70
Civilians	1	1	1	1	1	1	1	1	1	1
Public Services										
Engineering	3	3	2	3	3	3	3	3	2	2
Street	17	15	16	16	15	17	17	17	19	20
Sanitation	15	15	23	25	25	23	23	25	22	22
Transportation	-	-	-	-	-	6	6	6	4	3
Public Works Administration	9	9	9	11	11	6	5	4	4	3
Central Maintenance	6	6	7	7	7	8	7	9	8	9
Stormwater Enterprise	-	-	-	6	6	5	5	5	5	5
Culture & Recreation										
Recreation	9	9	9	17	17	9	8	8	8	10
<b>Total</b>	<b>220</b>	<b>230</b>	<b>248</b>	<b>266</b>	<b>264</b>	<b>263</b>	<b>259</b>	<b>262</b>	<b>258</b>	<b>264</b>

Source: Town's Payroll Department

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

**Table 17**

<b>Function/Program</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Police										
Physical arrests	2,549	2,849	3,078	2,479	2,744	2,901	850	851	1,077	1,887
Parking violations	111	127	154	571	602	373	301	180	170	160
Traffic violations	2,359	4,224	4,122	3,818	3,514	1,300	3,148	3,211	4,859	4,658
Fire										
Emergency responses	1,998	2,054	1,889	2,378	2,489	2,489	2,587	2,740	2,642	2,798
Fires extinguished	86	100	95	99	180	180	124	123	83	108
Inspections	812	370	476	902	1,179	1,179	1,088	1,284	1,872	1,755
Refuse collection										
Refuse collected (tons per year)	15,030	15,118	14,084	15,209	13,962	13,248	13,384	13,283	13,152	12,990
Recyclables collected (tons per year)	3,765	3,025	3,956	4,078	3,483	4,311	4,277	5,878	4,502	4,291
Other public works										
Street resurfacing (miles)	1.2	1.6	1.6	2.5	3.1	1.8	1.6	3.3	-	2.2
Potholes repaired (square yards)	5,774	6,277	6,585	1,797	1,444	1,654	1,512	1,115	2,969	1,393
Parks and recreation										
Athletic field permits issued	29	31	29	32	32	32	32	32	32	37

*N/A = not available.*

*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	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Policemen and officers	57	62	66	66	67	67	68	68	68	68
Annual police calls to which responded	29,825	32,646	34,507	34,831	36,407	41,136	34,676	37,836	41,880	39,421
Annual traffic accidents	1,311	1,313	1,270	1,447	1,403	1,300	1,242	1,357	1,346	1,309
Annual number of arrests (18 years and over)	2,450	2,463	3,078	2,479	1,744	2,901	1,271	1,202	2,575	1,324
Fire stations	4	4	4	4	4	4	4	4	4	4
Firemen and officers	59	65	65	67	65	68	68	68	68	68
Annual fire calls	2,313	2,003	1,889	2,378	2,489	2,532	2,587	2,740	2,642	2,798
Building permits issued	335	348	369	349	321	253	215	173	144	237
Value of building permits issued	\$ 58,283,673	\$ 39,804,790	\$ 52,767,802	\$ 45,689,811	\$ 55,146,840	\$ 57,883,794	\$ 15,570,649	\$ 10,376,351	\$ 11,464,132	\$ 38,875,388
Public services										
Streets (miles)	88.586	89.884	90.780	91.800	94.272	94.590	94.696	95.288	94,567	94
Streetlights	2,748	2,797	2,871	2,885	2,931	3,042	3,098	3,100	3,100	3,106
Traffic signals	30	30	30	38	38	28	28	28	28	28
Parks and recreation										
Parks	6	6	6	7	7	7	7	7	7	7
Total acreage of parks	277	277	277	289	294	294	294	294	294	294
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	5	5
Fishing and boating lakes										
Owned and operated by the Town	1	1	1	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.



***SUPPLEMENTARY INFORMATION:***  
***COMPLIANCE SECTION***

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**INDEPENDENT AUDITORS' 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**

To the Honorable Mayor and  
Members of the Board of Aldermen  
Town of Kernersville  
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, 2013, 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 11, 2013.

***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 considered 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*

*December 11, 2013*

***INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON ITS MAJOR STATE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH APPLICABLE SECTIONS OF OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT***

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, 2013. 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 programs.

***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, 2013.

### ***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*

*December 11, 2013*

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2013**

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Schedule 19  
Page 1 of 2

**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

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):

\_\_\_\_\_ Program Name  
Powell Bill

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Year Ended June 30, 2013**

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Schedule 19  
Page 2 of 2

**II. Financial Statement Findings**

There were no findings related to the financial statements for the fiscal year ended June 30, 2013.

**III. State Awards Findings and Questioned Costs**

There were no findings related to state awards for the fiscal year ended June 30, 2013.



**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**Year Ended June 30, 2013**

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Schedule 20

**Finding: 2012-1**

*Status:* Corrected.

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**Year Ended June 30, 2013**

Schedule 21

Grantor/Program Title	Federal CFDA Number	Grant Number	Federal (Direct and Pass-through) Expenditures	State Expenditures
<b>Federal grants:</b>				
<u>U.S. Department of Justice</u>				
Direct Programs				
Bullet-Proof Vest Partnership	16.607		\$ 4,404	
Federal Asset Forfeiture Funds	16.000	NC0-340100	75,011	
Organized Crime Drug Enforcement Task Forces	16.000	50CD04984	11,714	
ICE			<u>1,162</u>	
Total U.S. Department of Justice			<u>92,292</u>	
<u>U.S. Department of Homeland Security</u>				
Direct Programs				
Federal Emergency Management Agency SAFER	97.083	EMW-2008-FF-00362	<u>18,978</u>	
Total U.S. Department of Homeland Security			<u>18,978</u>	
<u>U.S. Department of Transportation</u>				
Passed through the N.C. Department of Transportation				
Governor's Highway Safety Program				
Saved By the Belt (Check Point Equipment)	20.602	K2-13-07-10	8,825	
Safe Routes to School				
School St. Sidewalk	20.205	WBS 40924.3.58	41,996	
Surface Transportation Program				
Union Cross Turn Lane	20.205	WBS 39746.3.8	107,771	
B40/US 421 & S. Main St. Interchange Landscape	20.205	WBS 3709.3.23	<u>164,216</u>	
Total U.S. Department of Transportation			<u>322,808</u>	
<u>USDA Forest Service Cooperative Forestry Assistance</u>				
Pass Through N.C. Department of Agricultural and Consumer Services				
Urban & Community Forestry Grant Program - Governmental (Tree Value & Care)	10.664	3327	<u>2,823</u>	
Total N.C. Department of Environmental and Natural			<u>2,823</u>	
<b>Total assistance - Federal programs</b>			<u>436,901</u>	
<b>State grants:</b>				
<u>N.C. Department of Transportation</u>				
Direct Programs				
Powell Bill				\$ 635,636
Total N.C. Department of Transportation				635,636
<u>N.C. Department of Environmental &amp; Natural Resources</u>				
Direct Programs				
Environmental Assistance and Outreach 2012				
Community Waste Reduction & Recycling		4901		<u>67,500</u>
<b>Total assistance - State programs</b>				<u>703,136</u>
<b>Total assistance</b>			<u>\$ 436,901</u>	<u>\$ 703,136</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**Year Ended June 30, 2013**

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Schedule 21

**Note 1 - 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.