


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

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

MEMORANDUM

To: Curtis Swisher, Town Manager
From: Franz Ader, Finance Director 
Date: January 5, 2015
Subject: Town Financial Audit FYE14

The Town's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2014 is attached to this memo.

John Frank of Dixon Hughes Goodman, PLLC will present the audit findings at the January 13, 2015 regular meeting of the Board of Aldermen. Please let me know if you have any questions.

Thank you.

ALDERMEN

Kenny Crews - Keith Hooker - Irving Neal - Joe L. Pinnix Jr. - Tracey H. Shifflette



NORTH CAROLINA'S
**PIEDMONT
TRIAD**

**Comprehensive Annual Financial Report
Year Ended
June 30, 2014**

**Town of Kernersville,
North Carolina**



Dawn H. Morgan, Mayor

Joe L. Pinnix Jr., Mayor Pro-Tem

Kenny Crews

Keith Hooker

Irving Neal

Tracey H. Shifflette

Curtis L. Swisher

Town Manager

Franz Ader, PE

Finance Director

Cynthia Stevens

Accounting Operations Manager

“Prepared by the Finance Department”

THIS PAGE LEFT INTENTIONALLY BLANK.

Town of Kernersville, North Carolina

TABLE OF CONTENTS

Page No.

INTRODUCTORY SECTION

List of Principal Officials	i
Organizational Chart	ii
Letter of Transmittal	iii
GFOA Certificate of Achievement	viii

FINANCIAL SECTION

Report of Certified Public Accountants

Independent Auditors' Report	1
Management's Discussion and Analysis	5

Exhibit

Basic Financial Statements

<i>Government-Wide Financial Statements:</i>		
1	Statement of Net Position	23
2	Statement of Activities	24
<i>Fund Financial Statements:</i>		
3	Balance Sheet - Governmental Funds.....	25
4	Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	26
5	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	27
6	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	28
7	Statement of Fund Net Position - Proprietary Funds.....	29
8	Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	30
9	Statement of Cash Flows - Proprietary Funds.....	31
	Notes to the Financial Statements.....	33

Town of Kernersville, North Carolina

TABLE OF CONTENTS

<u>Exhibit</u>	Required Supplementary Financial Data	<u>Page No.</u>
A-1	Law Enforcement Officers' Special Separation Allowance Required Supplementary Information - Schedule of Funding Progress	71
A-2	Law Enforcement Officers' Special Separation Allowance Required Supplementary Information - Schedule of Required Employer Contributions	72
	Law Enforcement Officers' Special Separation Allowance - Notes to the Required Schedules.....	72
B-1	Other Postemployment Benefits Required Supplementary Information - Schedule of Funding Progress.....	73
B-2	Other Postemployment Benefits Required Supplementary Information - Schedule of Employer Contributions	74
	Other Postemployment Benefits - Notes to the Required Schedules.....	74

Schedule

SUPPLEMENTARY INFORMATION

Combining and Individual Fund Statements and Schedules

1	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	77
2	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Reserve Fund	82
3	Combining Balance Sheet - Nonmajor Governmental Funds.....	84
4	Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	86
5	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Occupancy Tax Fund.....	88
6	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Emergency Telephone System Fund.....	89
7	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Contributions Fund.....	90
8	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Law Enforcement Forfeitures Fund	91
9	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Federal Justice Assistance Grant Fund.....	92
10	Schedule of Revenues, Expenditures and Changes in Fund Balance - Project Authorization and Actual - Public Works Facility Capital Projects Ordinance Fund	93

Town of Kernersville, North Carolina

TABLE OF CONTENTS

<u>Schedule</u>	SUPPLEMENTARY INFORMATION (CONTINUED)	<u>Page No.</u>
<i>Combining and Individual Fund Statements and Schedules (Continued)</i>		
11	Schedule of Revenues, Expenditures and Changes in Fund Balance - Project Authorization and Actual - Kerner Mill Greenway Capital Projects Ordinance Fund	94
12	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Stormwater Enterprise Fund	95
13	Schedule of Revenues and Expenditures - Financial Plan and Actual - Workers' Comp Self-Insurance Fund.....	96
<i>Other Schedules</i>		
14	Schedule of Ad Valorem Taxes Receivable	99
15	Analysis of Current Tax Levy	100
STATISTICAL SECTION		
<i>Financial Trends Information:</i>		
1	Net Position by Component	104
2	Changes in Net Position.....	105
3	Fund Balances, Governmental Funds	107
4	Changes in Fund Balances, Governmental Funds.....	108
<i>Revenue Capacity Information:</i>		
5	Tax Revenues by Source, Governmental Funds	109
6	Direct and Overlapping Property Tax Rates	110
7	Principal Property Taxpayers	111
8	Property Tax Levies and Collections	112
9	Assessed Value and Estimated Actual Value of Taxable Property.....	113
<i>Debt Capacity Information:</i>		
10	Ratios of Outstanding Debt by Type	114
11	Ratios of General Bonded Debt Outstanding	115
12	Direct and Overlapping Governmental Activities Debt	116
13	Legal Debt Margin Information.....	117

Town of Kernersville, North Carolina

TABLE OF CONTENTS

<u>Table</u>	STATISTICAL SECTION (CONTINUED)	<u>Page No.</u>
	<i>Demographic and Economic Information:</i>	
14	Demographic and Economic Statistics	118
15	Principal Employers for Forsyth County	119
16	Full-Time Equivalent Town Government Employees by Function/Program	120
	<i>Operating Information:</i>	
17	Operating Indicators by Function/Program	121
18	Capital Asset Statistics by Function/Program	122
<u>Schedule</u>	COMPLIANCE SECTION	
	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	125
	Report on Compliance for the Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act	127
	Report on Compliance for the Major State Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act	129
19	Schedule of Findings and Questioned Costs	131
20	Summary Schedule of Prior Year Audit Findings	133
21	Schedule of Expenditures of Federal and State Awards	134

INTRODUCTORY SECTION

THIS PAGE LEFT INTENTIONALLY BLANK.

Town of Kernersville, North Carolina

LIST OF PRINCIPAL OFFICIALS

Board of Aldermen

Dawn H. Morgan, Mayor

Joe L. Pinnix Jr., Mayor Pro-Tem

Kenny Crews

Keith Hooker

Irving Neal

Tracey H. Shifflette

Town Manager

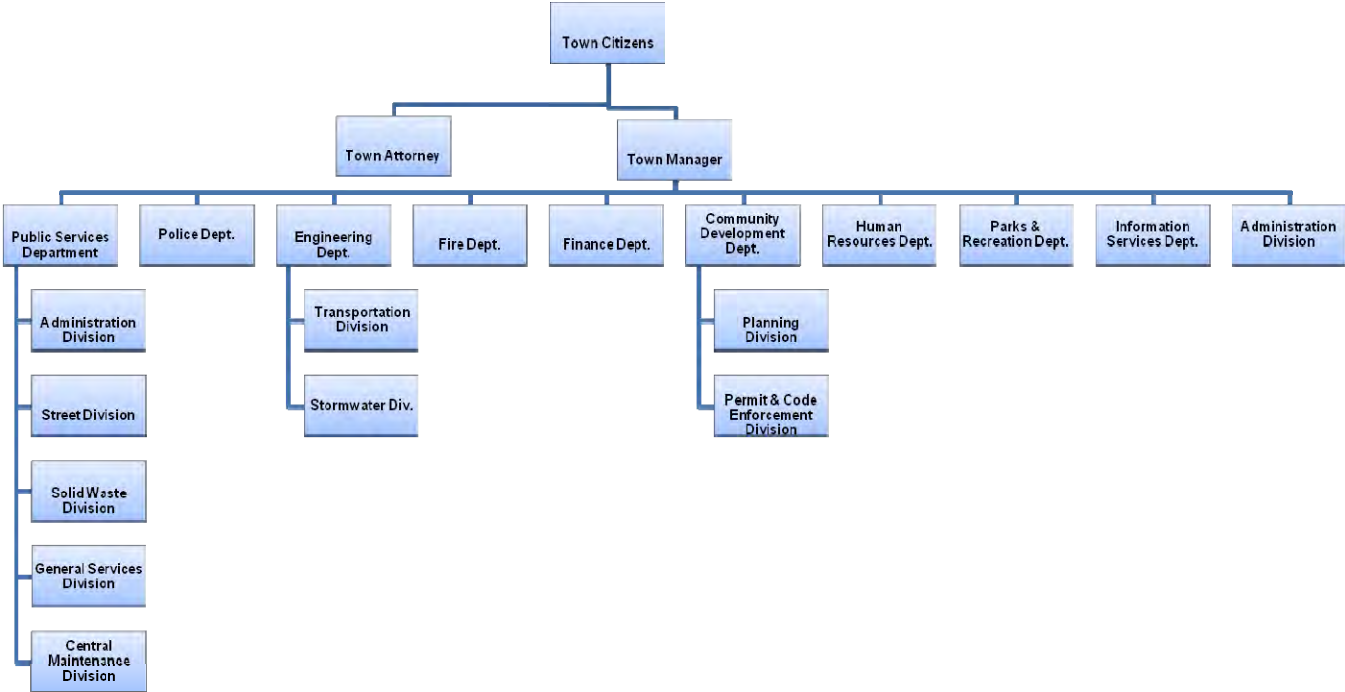
Curtis L. Swisher

Finance Director

Franz Ader, PE

Town of Kernersville, North Carolina

ORGANIZATIONAL CHART



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

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

December 17, 2014

Letter of Transmittal

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

Town Profile

The Town of Kernersville, incorporated in 1871 and uniquely centered between the cities of Greensboro, High Point and Winston-Salem, continues to grow and prosper. According to North Carolina state demographics, Kernersville's population has grown 35% between the 2000 U.S. Census and 2010, making it the 52nd fastest growing municipality in the state. The Town of Kernersville currently occupies a land area of 17.626 square miles and serves an estimated 2014 population of 24,025.

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

Local Economy and Long-Term Financial Planning

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

Major developments include:

- The United States Veterans Administration (VA) 370,000-square foot Veterans Administration Health Clinic is currently under construction. Lend Lease was selected by the VA to construct and lease back to the VA the projected \$100,000,000+ health clinic, with an employment base of over 500 workers.
- Construction continues on the infrastructure for the 338-acre Triad Business Park approved by the Town in October of 2007. The major anchor in the park, FedEx Ground's 125-acre regional hub distribution facility continues their expansion to their \$80,000,000 facilities to increase their capacity by 40%. Over 750 workers are currently working at this regional hub. FFF Enterprises - a pharmaceutical company - opened their new 88,000-square foot facility and employ 164 workers. Columbiana Hi Tech is currently constructing a 100,000-square foot manufacturing facility that will employ about 75 workers.
- Deere-Hitachi completed their 500,000+ square foot expansion of their manufacturing complex and corporate headquarters in fiscal year ending June 30, 2014. The expansion will increase their work force of approximately 700 to over 1,000. The North Carolina Department of Transportation (NCDOT) completed significant improvements to the intersection of West Mountain Street and Perry Road, which provides primary access to the Deere-Hitachi manufacturing facility.
- The 400-acre mixed-use development "Carrollton" has been renamed "Welden" and redesigned to focus on becoming the Triad's premier traditional neighborhood design community consisting of a commercial village center and mix of residential types in a walkable and bike-able setting. Welden completed the construction of a 24,554-square foot, two-story office building for the Piedmont Regional Council.

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

Some of the most significant infrastructure projects that are currently under construction or have been completed during the fiscal year 2013-14 include the following:

1. The Piney Grove Road widening project was completed in 2014 and consisted of the addition of a southbound through-lane at a location north of the intersection with Nelson Street and south to the intersection with North Main Street. In conjunction with this project, Surface Transportation Program - Direct Allocation (STP-DA) funding has been obtained for the installation of sidewalk along Piney Grove Road and Nelson Street. Eighty percent (80%) of the Piney Grove Road project was funded by grants.
2. The Kerners Mill Creek Greenway Park is a greenway extending from Oakhurst Drive to Hopkins Road along the Kerners Mill Creek. A feasibility study was completed in 2010 and final design was completed in 2014. Construction funding has been obtained for the first phase of the project from Oakhurst Drive to the Kilburn subdivision with STP-DA funds. Construction is expected to begin in the spring of 2015.

3. The North Cherry Street Sidewalk project is proposed to extend sidewalk in the Piney Grove Road project area from the intersection of North Cherry and Piney Grove westward over the railroad tracks. This new section of sidewalk will connect to the existing section on the other side of the railroad tracks and lead into downtown. This project is expected to be completed early in 2015.
4. The NCDOT has completed construction plans for substantial improvements to South Main Street including the intersection of South Main Street and Old Winston Road. These roadway improvements should be completed in calendar year 2016.
5. The NCDOT is constructing a new interchange on Business 40 at Macy Grove. The project will be completed in calendar year 2015. This interchange will provide additional traffic capacity and further economic development to the Triad Business Park and Medical Business Park areas.
6. The NCDOT is constructing a new interchange on Interstate 40 (I-40) at Union Cross Road including additional lanes extending to Union Cross Road. The project will be completed in calendar year 2015. This interchange will provide additional traffic capacity and further economic development to the interchange area that includes Smith Crossing - a planned 83-acre mixed-use development.

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

Community Participation

Partnering with Town officials, local citizen groups are adding to the success of Kernersville. While the Town has many organizations that are standard to most communities, it has several unique associations that many cities and towns do not have. These organizations add value to the community in a way that further increases the Town's appeal to prospective businesses and residents. In addition to numerous civic, craft, recreational and newcomer organizations, the Town has: Kernersville Cares for Kids, Kernersville Little Theatre, Shepherd's Center of Kernersville (for seniors), Kernersville Community Appearance, Körner's Folly Foundation (historic in nature), Paul J. Ciener Botanical Garden, Chamber of Commerce and the Kernersville Council. These organizations add "flavor" and support to Kernersville benefiting both the citizens and the local economy. All of these efforts, and others, enable me to provide an annual financial report that reflects a stable local economy and a financially sound government for the fiscal year ended June 30, 2014.

The Report

The Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2014 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, 2014. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented herein. Management of the Town of Kernersville has established a comprehensive internal control framework that is designed to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

North Carolina general statutes require each unit of local government to publish, within four months after the close of the fiscal year, a complete set of financial statements presented in conformity with GAAP and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to this requirement, the Town engaged Dixon Hughes Goodman LLP, independent auditors, to perform an audit of the Town's reported financial position and results of operations contained in the government-wide, fund financial statements and notes to the financial statements. Working with the Town's financial staff, they made appropriate tests of data included in the financial statements and evaluated the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified (clean) opinion that the financial statements of the Town of Kernersville for the fiscal year ended June 30, 2014 are fairly presented in conformity with generally accepted accounting principles. The report of independent auditors is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Kernersville is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the Town's internal controls and compliance with legal requirements, with emphasis on administration of federal and state grants.

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

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

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

New Pronouncements

The Governmental Accounting Standards Board (GASB) is an independent organization that establishes accounting standards for state and local governments to improve accounting conformity and excellence with public-sector financial reporting. GASB occasionally issues statements to address accounting and financial reporting concerns. Currently, there are no new GASB pronouncements applicable to the Town.

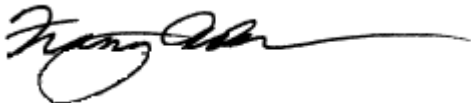
Awards and Acknowledgements

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 2014 CAFR conforms to the highest reporting standards as well.

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

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

Respectfully submitted,



Franz Ader, PE, MPA
Finance Director



Government Finance Officers Association

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

Presented to

**Town of Kernersville
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

FINANCIAL SECTION

THIS PAGE LEFT INTENTIONALLY BLANK.



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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, 2014, 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, 2014, 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 19 and 71 through 74, respectively, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014 on our consideration of the Town of Kernersville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Kernersville's internal control over financial reporting completion.

Dixon Hughes Goodman LLP

*High Point, North Carolina
December 17, 2014*

THIS PAGE LEFT INTENTIONALLY BLANK.

TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014

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, 2014. 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

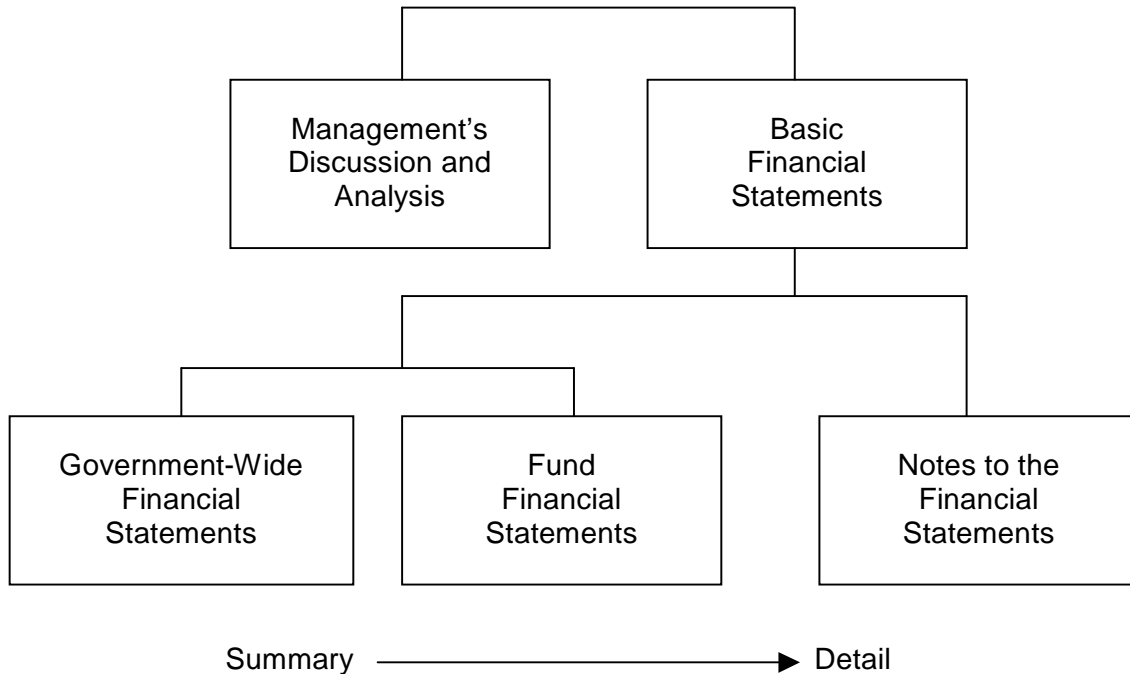
- The assets of the Town of Kernersville exceeded its liabilities at the close of the fiscal year by \$123,604,249.
- The government's total net position decreased by \$901,915 in the current fiscal year.
- As of the close of the current fiscal year, the Town of Kernersville's governmental funds reported combined ending fund balances of \$11,513,257. Approximately 62.4% of this total amount, or \$7,178,931 is available for spending at the government's discretion (unassigned).
- Approximately 12.9% of the total combined fund balance or \$1,479,864 is committed to transportation or capital projects. Approximately 2.0% of the total combined fund balance or \$226,126 is assigned to subsequent year's expenditures and about 22.8% or \$2,628,336 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 \$7,178,931 represented 27.5% 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 decrease of \$388,530 the fiscal year ending June 30, 2014. The net decrease was primarily the result of retiring \$1,753,280 of debt (general obligation debt, equipment, buildings and land). Total debt for both the governmental and business-type activities currently stands at \$11,840,214.
- The Town of Kernersville bond rating from the Standard and Poor's Corporation is AA+ on its street construction bonds. Moody's Investor Service rated this issue at Aa2. These street construction bonds represent the only general obligation debt of the Town. At June 30, 2014, the street bond outstanding principal was \$4,000,000.
- For fiscal year 2013-14, the Town's property tax rate was \$0.5275 and supported 50.4% of governmental services to citizens and the community based on government-wide statements.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 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
June 30, 2014

Government-Wide Financial Statements

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

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and total liabilities. 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 1 through 8) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Kernersville, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Kernersville can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed, short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between 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
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014

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 33 to 67 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 69 of this report.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

Government-Wide Financial Analysis

**NET POSITION
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 14,899,615	\$ 15,029,846	\$ 1,225,678	\$ 946,040	\$ 16,125,293	\$ 15,975,886
Capital assets	128,151,892	126,077,477	213,296	238,723	128,365,188	126,316,200
Total assets	<u>143,051,507</u>	<u>141,107,323</u>	<u>1,438,974</u>	<u>1,184,763</u>	<u>144,490,481</u>	<u>142,292,086</u>
Long-term liabilities	15,601,537	15,512,790	-	44,688	15,601,537	15,557,478
Other liabilities	5,236,571	4,039,494	48,124	-	5,284,695	4,039,494
Total liabilities	<u>20,838,108</u>	<u>19,552,284</u>	<u>48,124</u>	<u>44,688</u>	<u>20,886,232</u>	<u>19,596,972</u>
Net position:						
Net investment in capital assets	120,711,678	119,209,937	213,296	238,723	120,924,974	119,448,660
Restricted for:						
Stabilization by state statute	2,053,262	1,618,892	-	-	2,053,262	1,618,892
Unrestricted	<u>(551,541)</u>	<u>733,430</u>	<u>1,177,554</u>	<u>901,352</u>	<u>626,013</u>	<u>1,634,782</u>
Total net position	<u>\$ 122,213,399</u>	<u>\$ 121,562,259</u>	<u>\$ 1,390,850</u>	<u>\$ 1,140,075</u>	<u>\$ 123,604,249</u>	<u>\$ 122,702,334</u>

(1) Information not available

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 \$123,604,249 of June 30, 2014. The largest portion of net position reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position (1.6%) represents resources that are subject to external restrictions on how they may be used. There was a decrease in unrestricted net position of \$1,008,769 from Fiscal Year 2012-13.

- Property tax collections increased by \$266,856, primarily due to a combined tax base decrease in commercial, industrial and public service property values of \$50,140,310. However, the assessed residential property values decreased \$9,902,393. This year's property tax collection rate was 98.76%.
- Sales and use tax revenues increased \$48,341 over last year's collections. This increase of 1.3% over last year's collections represents nominal economic growth in Kernersville.
- Investment earnings in the governmental funds decreased \$41,681 from the prior year representing a 71.1% decrease due to a poor investment atmosphere.

The net result of the above revenues and expenses was an increase in total net position in the amount of \$901,915 for the year (Figure 3).

**TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

**CHANGES IN NET POSITION
Figure 3**

	Governmental		Business-type		Total	
	Activities		Activities			
Revenues	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services:	\$ 2,398,460	\$ 2,242,101	\$ 1,013,509	\$ 988,820	\$ 3,411,969	\$ 3,230,921
Operating grants and contributions	2,324,088	2,930,324	-	-	2,324,088	2,930,324
Capital grants and contributions	3,070,242	162,253	-	-	3,070,242	162,253
General revenues:						
Property taxes	13,097,529	12,883,905	-	-	13,097,529	12,883,905
Other taxes	218,755	247,477	-	-	218,755	247,477
Unrestricted intergovernmental revenues:	6,036,044	6,194,669	-	-	6,036,044	6,194,669
Investment earnings, unrestricted	8,218	12,787	90	353	8,308	13,140
Loss on sale of capital assets	3,203	(115,866)	-	-	3,203	(115,866)
Miscellaneous	8,283	49,774	-	-	8,283	49,774
Total revenues	<u>27,164,822</u>	<u>24,607,424</u>	<u>1,013,599</u>	<u>989,173</u>	<u>28,178,421</u>	<u>25,596,597</u>
Expenditures						
General government	3,494,897	4,168,945	-	-	3,494,897	4,168,945
Public safety	13,008,107	11,782,579	-	-	13,008,107	11,782,579
Public service	8,187,772	8,575,454	-	-	8,187,772	8,575,454
Culture and recreation	1,603,499	1,606,921	-	-	1,603,499	1,606,921
Stormwater			627,722	695,750	627,722	695,750
Unallocated interest expense	354,509	377,849	-	-	354,509	377,849
Total expenses	<u>26,648,784</u>	<u>26,511,748</u>	<u>627,722</u>	<u>695,750</u>	<u>27,276,506</u>	<u>27,207,498</u>
Increase (decrease) in net position before transfers	516,038	(1,904,324)	385,877	293,423	901,915	(1,610,901)
Transfers	135,102	131,789	(135,102)	(131,789)	-	-
Increase (decrease) in net position	651,140	(1,772,535)	250,775	161,634	901,915	(1,610,901)
Net position, July 1	<u>121,562,259</u>	<u>123,334,794</u>	<u>1,140,075</u>	<u>978,441</u>	<u>122,702,334</u>	<u>124,313,235</u>
Net position June 30	<u>\$122,213,399</u>	<u>\$121,562,259</u>	<u>\$ 1,390,850</u>	<u>\$ 1,140,075</u>	<u>\$123,604,249</u>	<u>\$122,702,334</u>

Governmental Activities. The Town's net position from governmental activities increased by \$651,140 during the year. This net increase is primarily the result of program and general revenues exceeding expenditures for the fiscal year ending June 30, 2014.

Business-Type Activities. The Town's net position from business-type activities increased by \$250,775 during the year. This net increase is the result of additional revenues.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Kernersville's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Unreserved fund balance is one useful measure of a government's net resources available for spending at the end of the fiscal year.

TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014

The General Fund is the chief operating fund of the Town of Kernersville. At the end of the fiscal year, the fund balance was \$10,492,129, of which \$2,266,032 was restricted or non-spendable and \$8,226,097 was unrestricted. Of the restricted portion, \$2,043,075 was restricted by state statute and by use such as the following: tourism, public safety, capital equipment and drug education.

Of the unrestricted portion of the total fund balance, \$821,040 was committed to transportation or capital projects, \$226,126 was assigned for subsequent year's expenditures and \$7,178,931 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 27.5% of total General Fund expenditures, while total fund balance represents 40.2% of that same amount.

The Town had seven Non-major Special Revenue or Capital Project Funds having a total fund balance of \$1,021,128 at the fiscal year end. Of this amount, \$362,304 was restricted by state statute or use, while \$658,824 was unrestricted. Of the unrestricted amount, \$658,824 was committed for capital projects.

There were several non-major special revenue funds with significant increases or decreases in fund balance. The Occupancy Tax Fund had a decrease in fund balance of 49.0% or \$15,839 due to a budget amendment expenditure increases for a contribution to Körner's Folly. The Emergency Telephone System Fund saw a decrease in fund balance of 86.7% or \$65,622 due primarily to the loss of reimbursement revenue from Forsyth County. The Contributions Fund had an increase in fund balance of \$742 or 0.9% due primarily to an increase in contributions revenue and interfund transfers. The Law Enforcement Forfeiture Fund had a decrease in fund balance of \$93,467 or 27.2% due primarily to the decrease in seizure forfeiture revenue collection. The Federal Justice Assistance Grant Fund had no change in fund balance and an ending fund balance of \$599.

Of the Non-major Capital Project Funds, the Public Works Facility Capital Projects Ordinance Fund exhibited a 0.0% growth, an increase of \$52 and an ending fund balance of \$555,692. There was limited activity within the fund for the year. The Kerner Mill Greenway Capital Projects Ordinance Fund had a decrease in fund balance of 37.1% or \$60,957 due primarily because reimbursement revenues were not collected to offset project expenses.

At June 30, 2014, the governmental funds of the Town reported a combined fund balance of \$11,513,257 or a 9.3% decrease over the previous year. The decrease is primarily due to decreases in General Fund - fund balances in the committed, assigned and unassigned categories.

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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014

There were three budget amendments during the fiscal year. The three budget amendments resulted in a total net increase in budgeted general fund expenditures of \$3,176,223 for the fiscal year, primarily due to increased expenditures associated with the following: (1) carry-over operating and capital construction expenditures; (2) a Town Hall HVAC system; (3) a swap-body truck; (4) landfill gas vents engineering and installation; (5) a one-ton dump truck and trailer; and (6) street resurfacing.

Overall, the economy has somewhat stabilized. However, numerous budget-to-actual variances in both revenues and expenditures warrant discussion. The ad valorem tax revenue category consists of property taxes with real property (buildings, houses, etc.) and individual/business personal property (equipment). A positive budget variance of \$525,227 or 4.4% occurred with the current collections of ad valorem taxes possibly as a result of vehicle tax collections being higher than anticipated. The restricted revenue category consists of state, local and federal grants and other funds restricted by their use. A negative budget variance of \$1,044,328 or 85.1% occurred in the state transportation portion of the restricted revenue category primarily because of reimbursements not received by state transportation grants (NCDOT) for the Piney Grove Road project that was incomplete at June 30, 2014. Also, a negative budget variance of 100% or \$819,000 occurred in the restricted category because reimbursement not received by CCUC as a result of engineering and construction that did not occur on Brookford Road as budgeted. The net budget variance in the Town's general fund revenue excluding transfers in or out was negative \$1,455,812 or 6.5%.

The expenditure budget to actual variances were positive in all expenditure categories: general government, public safety, public service and culture/recreation. Notable budget variances within these categories warrants explanation. Within the General Government category, all departments experienced positive budget to actual variances with the greatest occurring within the Administration Department followed by the Finance and General Services Departments. The Administration Department had a budget variance of \$150,686 or 15.7% primarily because an HVAC project was not completely paid for within the budget year. The Finance Department experienced a \$51,852 or 6.7% primarily due to personnel vacancies during the fiscal year. General Services Department had a budget variance of \$41,973 or 8.2% primarily to utility expenses being lower than anticipated within town government buildings. Overall, the General Government category had a positive budget variance totaling \$297,032 or 7.0%.

Within the Public Safety category, all departments experienced positive budget-to-actual variances with the total category positive budget variance being 1.6% or \$211,763. Two notable budget variances occurred in the Police and Fire Departments. The greatest positive budget variance within the category occurred in the Police Department at a total of \$108,674 or 1.6% as a result of personnel-related expenses not occurring and supplies/materials not purchased. The Fire Department had a positive budget variance of \$97,990 or 1.6% as a result of uniforms and various supplies that were not purchased in fiscal year 2013-14.

TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014

The category with the greatest positive budget variance in the General Fund was the Public Service category at \$1,851,189 or 21.2%. All departments within the Public Service category experienced positive budget-to-actual variances with the largest variances coming from the Engineering, Transportation, Street and Central Maintenance Departments. The Engineering Department had a positive budget variance of \$714,600 or 78.3% primarily as the result of the engineering design and construction project for Brookford Road/Hospital Boulevard that was not undertaken. The Transportation Department had a positive budget variance of \$727,829 or 37.3% primarily as the result of several projects that were not completed by June 30, 2014 including the following: Piney Grove Road widening, West Mountain Street Sidewalk and North Cherry Street Sidewalk construction. The Street Department had a positive budget variance of \$241,451 or 11.1% as the primary result of a swap-body truck that was not purchased. Finally, the Central Maintenance Department had a budget variance of \$118,964 or 8.1% mostly due to decreases in the cost per gallon of diesel and gasoline fuel.

Within the Cultural and Recreational category, all departments had positive budget variances with the Recreation Department having the greatest variance of \$36,512 or 2.8% primarily due to recreational camp expenses and building/equipment expenses that were not incurred.

The cumulative total expenditure variance for all categories within the General Fund was 8.5% or \$2,412,922. As such, 648,154 of fund balance was appropriated - compared to the budgeted amount of \$1,680,227 - to balance General Fund revenues with General Fund expenses.

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 22.0% or \$250,775 to a total of \$1,390,850. 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 decreased an amount of 27.0% or \$90,554 to a total of \$244,467.

Capital Asset and Debt Administration

Capital Assets. The Town of Kernersville's investment in capital assets for its governmental activities as of June 30, 2014 totals \$128,151,892 (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 \$213,296.

**TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

For the fiscal year ended June 30, 2014, major capital asset transactions for governmental activities include the following:

- Acquisition of land, rights-of-ways and construction in progress increased in the amount of \$2,850,256.
- Infrastructure saw an increase in the amount of \$1,416,520.
- Equipment and heavy equipment increased in the amount of \$1,203,097.
- Vehicles for various departments increased in the amount of \$234,001.

For the fiscal year ended June 30, 2014, there were no major capital asset transactions for the Business Type fund (Stormwater Fund).

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**

	Governmental Activities		Business-type Activities		Total 2014	Total 2013
	2014	2013	2014	2013		
Capital assets not being depreciated						
Land	\$ 68,467,178	\$ 67,037,417	\$ -	\$ -	\$ 68,467,178	\$ 67,037,417
Construction in progress	1,370,008	48,886	-	-	1,370,008	48,886
Total capital assets not being depreciated	69,837,186	67,086,303	-	-	69,837,186	67,086,303
Capital assets being depreciated						
Buildings and improvements	6,180,005	6,406,292	-	-	6,180,005	6,406,292
Land improvements	1,193,298	1,300,784	-	-	1,193,298	1,300,784
Infrastructure	47,181,819	47,928,752	112,892	116,321	47,294,711	48,045,073
Equipment and heavy equipment	3,085,818	2,702,505	79,943	97,708	3,165,761	2,800,213
Vehicles	673,766	652,841	20,461	24,694	694,227	677,535
	<u>58,314,706</u>	<u>58,991,174</u>	<u>213,296</u>	<u>238,723</u>	<u>58,528,002</u>	<u>59,229,897</u>
	<u>\$ 128,151,892</u>	<u>\$ 126,077,477</u>	<u>\$ 213,296</u>	<u>\$ 238,723</u>	<u>\$ 128,365,188</u>	<u>\$ 126,316,200</u>

**TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

Long-Term Debt. As of June 30, 2014 the Town of Kernersville had total bonded debt outstanding of \$4,000,000 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	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 4,000,000	\$ 4,400,000	\$ -	\$ -	\$ 4,000,000	\$ 4,400,000
Revolving loan payable	4,400,000	4,800,000	-	-	4,400,000	4,800,000
Installment purchases	3,440,214	3,028,744	-	-	3,440,214	3,028,744
	<u>\$ 11,840,214</u>	<u>\$ 12,228,744</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,840,214</u>	<u>\$ 12,228,744</u>

The Town of Kernersville's total debt of both governmental and business-type activities had a net decrease of \$388,530 or 3.2% for the fiscal year ended June 30, 2014. The net increase was primarily the new installment purchase contracts for various equipment, land and buildings. Total debt currently stands at \$11,840,214.

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 rated the debt at Aa2. These ratings are a clear indication of the Town's financial condition and its consistency for managing its finances well.

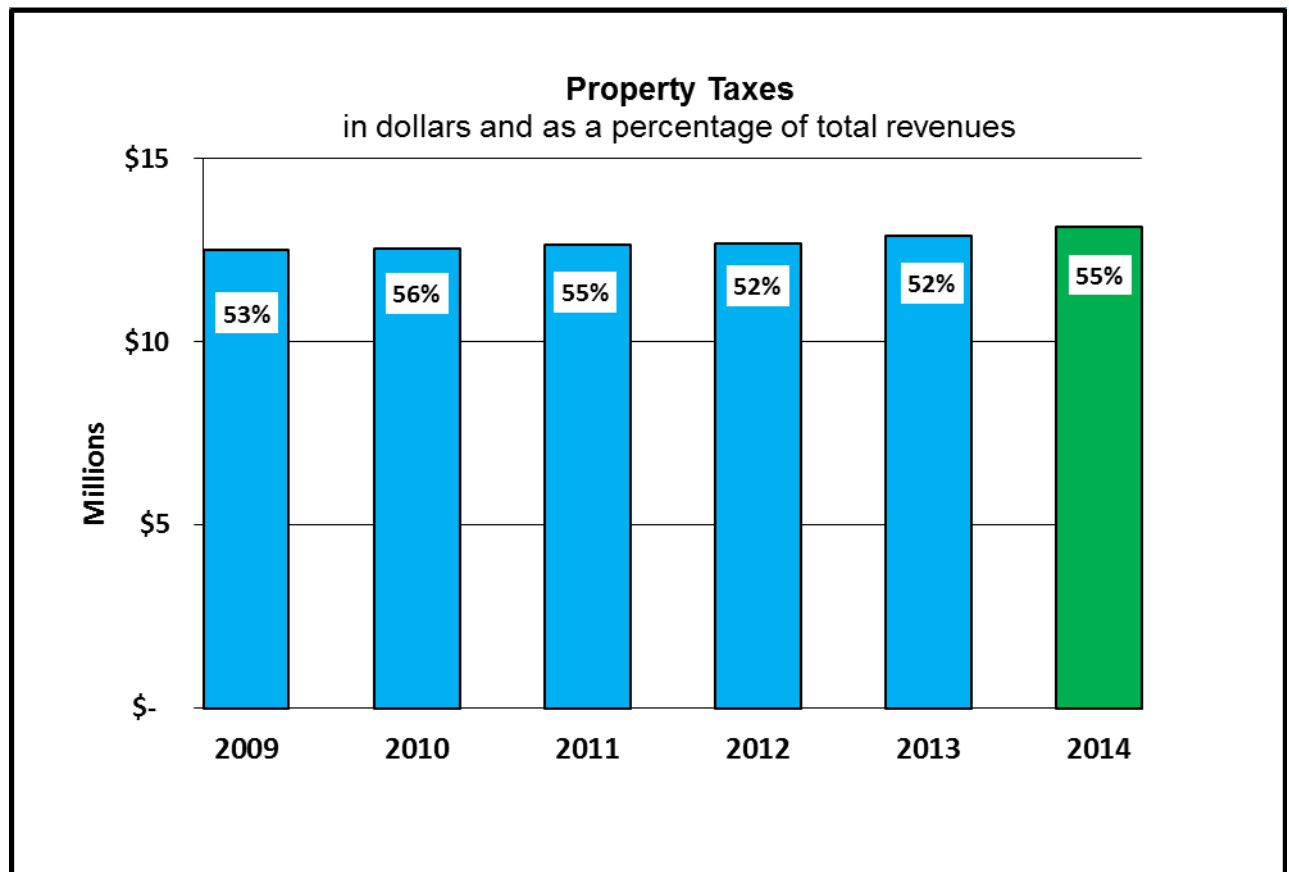
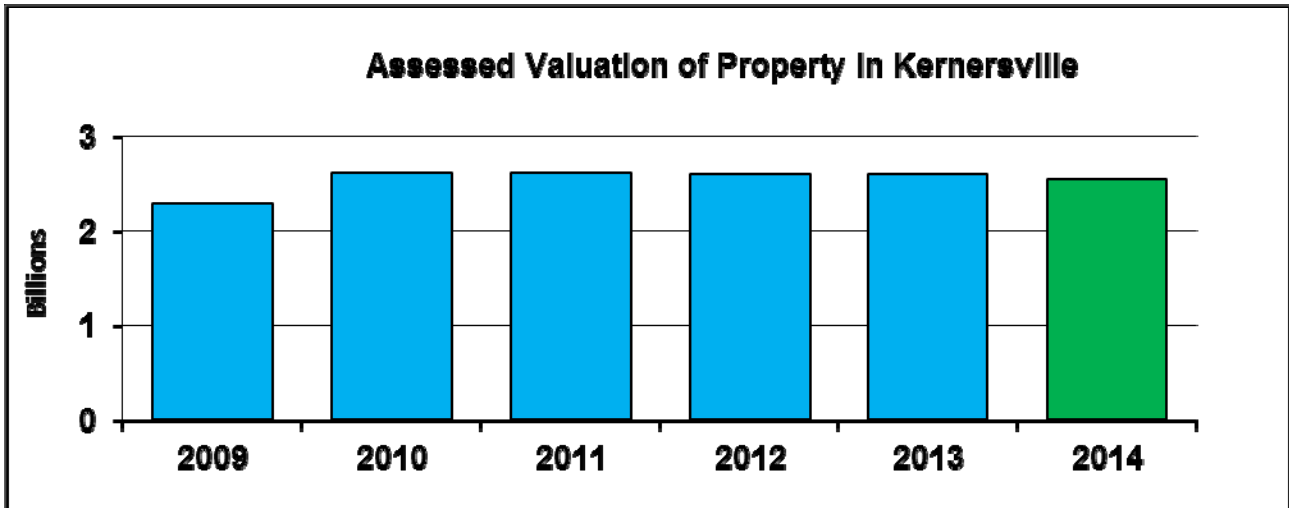
North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within the government's boundaries or \$204,020,952. The total debt outstanding at the close of this fiscal year was \$11,840,214, resulting in a legal debt margin for the Town of Kernersville of \$192,180,738. Hence, the total bonded debt for the Town of Kernersville is 5.8%. The Town has no authorized but unissued debt at June 30, 2014.

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
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014

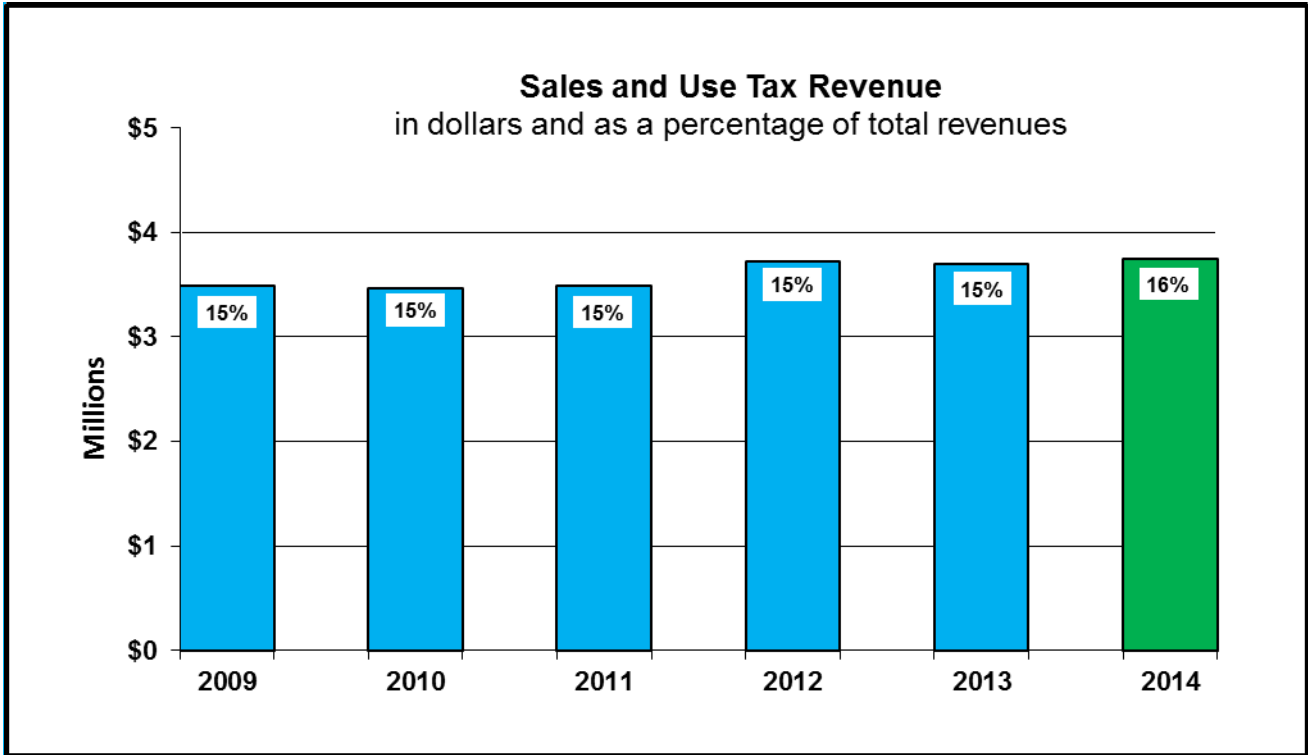
Economic Factors and Next Year's Budgets and Rates

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

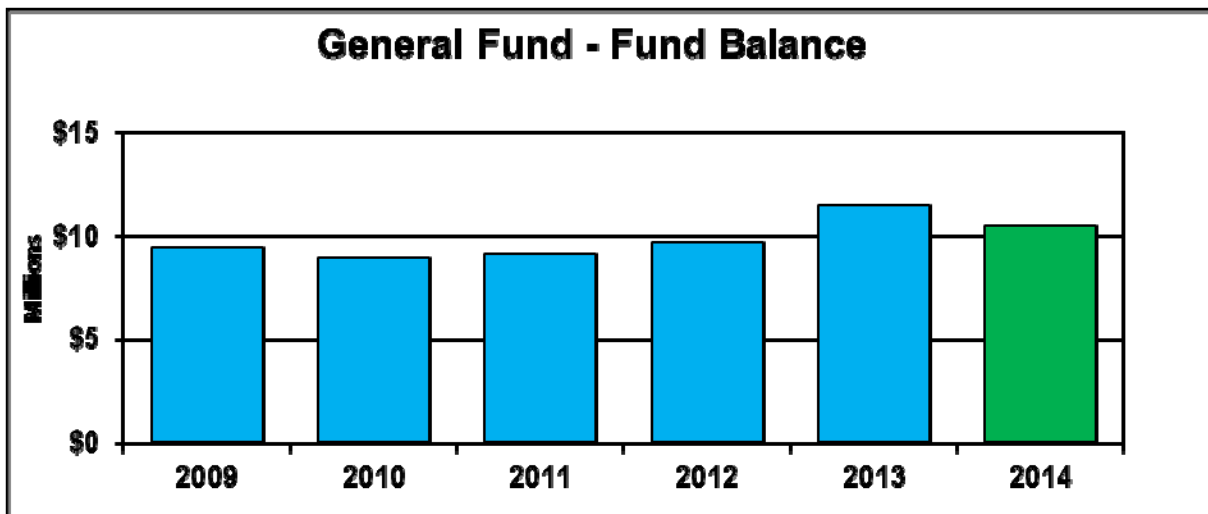


**TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

The preceding graphs show that the Town's largest source of revenue - property taxes - increased steadily from 2009 to 2014.



The Town's second largest revenue source (sales and use taxes) increased steadily from 2005 to 2008 with a sharp drop off beginning in 2009. Sales and use remained relatively flat in 2010 and 2011 with a slight increase in 2012. Sales and use tax increases were relatively flat in 2012, 2013 and 2014. Most other revenues have remained somewhat stable.



**TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

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 a land and building purchase which occurred in 2011-12. The fund balance decreased slightly in 2013-14 due to budgetary amendments including an unscheduled HVAC replacement at Town Hall.

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, 2014, 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, 2015

Governmental Activities: The General Fund budget for fiscal year 2014-15 was approved at \$27,354,415. The collection of property taxes - the Town's largest source of revenue - is expected to increase slightly in fiscal year 2014-15 compared to the amount collected in fiscal year 2013-14 primarily due to tax valuation increases associated with real property (buildings, houses, etc.) and individual/business personal property (equipment).

The unrestricted intergovernmental revenue categories budgeted in 2014-15 are expected to be lower than the estimated collections from the prior year primarily due to the loss of almost \$331,000 in sales tax - hold harmless. A budgeted appropriation of \$226,126 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 2014-15.

General Fund services and expenditures in 2014-15 are comparable to those in the prior year. Several major capital outlay items scheduled for fiscal year 2014-15 total \$1,179,650 and include the following:

- Six police patrol vehicles: \$150,000.
- Police communication radios: \$85,950.
- Computers: \$117,700.
- Fire pumper truck: \$475,000.
- Emergency response (APX 6000) radios: \$96,000.
- Parks and recreation vehicle: \$30,000.
- Street sweeper: \$225,000.

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

**TOWN OF KERNERSVILLE, NORTH CAROLINA
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014**

Business-Type Activities: The budget for the Stormwater Enterprise Fund was approved at \$1,497,051 for 2014-15 with no changes in the fee rate structure. Capital outlay of \$517,500 is budgeted for stormwater structure general improvements. No significant program or service changes are scheduled for 2014-15.

Requests for Information

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

THIS PAGE LEFT INTENTIONALLY BLANK.

BASIC FINANCIAL STATEMENTS

THIS PAGE LEFT INTENTIONALLY BLANK.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2014

Exhibit 1

ASSETS	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and investments	\$ 11,245,926	\$ 1,225,678	\$ 12,471,604
Prepaid assets	222,957	-	222,957
Receivables:			
Taxes receivable, net	422,805	-	422,805
Accrued interest receivable on taxes	87,006	-	87,006
Accounts receivable, net	189,377	-	189,377
Due from other governments	2,471,329	-	2,471,329
Restricted cash and cash equivalents	260,215	-	260,215
Total current assets	<u>14,899,615</u>	<u>1,225,678</u>	<u>16,125,293</u>
Noncurrent assets:			
Capital assets:			
Capital assets not depreciated	69,837,186	-	69,837,186
Other capital assets, net of depreciation	58,314,706	213,296	58,528,002
Total noncurrent assets	<u>128,151,892</u>	<u>213,296</u>	<u>128,365,188</u>
Total assets	<u>143,051,507</u>	<u>1,438,974</u>	<u>144,490,481</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	1,466,328	29,418	1,495,746
Performance bonds	260,215	-	260,215
Claims and judgments	250,682	-	250,682
Accrued interest payable	96,091	-	96,091
Advanced rent payments	47,411	-	47,411
Current portion of long-term liabilities	3,115,844	18,706	3,134,550
Total current liabilities	<u>5,236,571</u>	<u>48,124</u>	<u>5,284,695</u>
Long-term liabilities:			
Due in more than one year	15,601,537	-	15,601,537
Total long-term liabilities	<u>15,601,537</u>	<u>-</u>	<u>15,601,537</u>
Total liabilities	<u>20,838,108</u>	<u>48,124</u>	<u>20,886,232</u>
NET POSITION			
Net investment in capital assets	120,711,678	213,296	120,924,974
Restricted for:			
Stabilization by state statute	2,053,262	-	2,053,262
Unrestricted	(551,541)	1,177,554	626,013
Total net position	<u>\$ 122,213,399</u>	<u>\$ 1,390,850</u>	<u>\$ 123,604,249</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, 2014

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) 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	\$ 3,494,897	\$ 435,885	\$ 25,656	\$ -	\$ (3,033,356)	\$ -	\$ (3,033,356)
Public safety	13,008,107	126,997	488,643	-	(12,392,467)	-	(12,392,467)
Public service	8,187,772	1,526,801	1,808,641	3,070,242	(1,782,088)	-	(1,782,088)
Cultural and recreation	1,603,499	308,777	1,148	-	(1,293,574)	-	(1,293,574)
Interest on long-term obligations	354,509	-	-	-	(354,509)	-	(354,509)
Total governmental activities	26,648,784	2,398,460	2,324,088	3,070,242	(18,855,994)	-	(18,855,994)
Business-type activities:							
Stormwater	627,722	1,013,509	-	-	-	385,787	385,787
Total business-type activities	627,722	1,013,509	-	-	-	385,787	385,787
Total government	<u>\$ 27,276,506</u>	<u>\$ 3,411,969</u>	<u>\$ 2,324,088</u>	<u>\$ 3,070,242</u>	(18,855,994)	385,787	(18,470,207)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					13,097,529	-	13,097,529
Other taxes					218,755	-	218,755
Unrestricted intergovernmental revenues					6,036,044	-	6,036,044
Unrestricted investment earnings					8,218	90	8,308
Gain on sale of capital assets					3,203	-	3,203
Miscellaneous					8,283	-	8,283
Total general revenues not including transfers					19,372,032	90	19,372,122
Net transfers					135,102	(135,102)	-
Total general revenues and transfers					19,507,134	(135,012)	19,372,122
Change in net position					651,140	250,775	901,915
Net position - beginning					121,562,259	1,140,075	122,702,334
Net position - ending					<u>\$ 122,213,399</u>	<u>\$ 1,390,850</u>	<u>\$ 123,604,249</u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

Exhibit 3

ASSETS	<u>Major Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	
Cash and investments	\$ 9,724,937	\$ 1,014,602	\$ 10,739,539
Restricted cash	260,215	-	260,215
Prepaid assets	222,957	-	222,957
Taxes receivable, net	422,805	-	422,805
Accounts receivable, net	189,377	-	189,377
Due from other governments	2,461,142	10,187	2,471,329
Total assets	<u>\$ 13,281,433</u>	<u>\$ 1,024,789</u>	<u>\$ 14,306,222</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 1,451,429	\$ 3,661	\$ 1,455,090
Performance bonds	260,215	-	260,215
Advanced rent payments	47,411	-	47,411
Total liabilities	<u>1,759,055</u>	<u>3,661</u>	<u>1,762,716</u>
DEFERRED INFLOWS OF RESOURCES			
Due from other governments	607,444	-	607,444
Property tax receivable	422,805	-	422,805
Total deferred inflows of resources	<u>1,030,249</u>	<u>-</u>	<u>1,030,249</u>
FUND BALANCES			
Non-spendable			
Prepaid assets	222,957	-	222,957
Restricted			
Stabilization by state statute	2,043,075	10,187	2,053,262
Tourism	-	6,293	6,293
Public safety	-	260,753	260,753
Drug education	-	85,071	85,071
Committed			
Capital projects	821,040	658,824	1,479,864
Assigned			
Subsequent year's expenditures	226,126	-	226,126
Unassigned	7,178,931	-	7,178,931
Total fund balances	<u>10,492,129</u>	<u>1,021,128</u>	<u>11,513,257</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 13,281,433</u>	<u>\$ 1,024,789</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.	128,151,892
Other assets are not available to pay for current expenditures and therefore are deferred in the funds (accrued interest receivable from taxes).	87,006
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.	244,467
Liabilities for earned but deferred revenues in fund statements.	1,030,249
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>(18,813,472)</u>
Net position of governmental activities	<u>\$ 122,213,399</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, 2014

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	\$ 13,151,903	\$ -	\$ 13,151,903
Other taxes and licenses	112,099	106,656	218,755
Unrestricted intergovernmental	6,036,044	-	6,036,044
Restricted intergovernmental	938,908	106,791	1,045,699
Penalties and interest	16,860	89	16,949
Contributions and donations	849,414	5,003	854,417
Other general revenues	8,283	-	8,283
Functionally related revenues	2,398,460	-	2,398,460
	<u>23,511,971</u>	<u>218,539</u>	<u>23,730,510</u>
Total revenues			
Expenditures:			
Current:			
General government	3,824,056	-	3,824,056
Public safety	12,318,632	229,047	12,547,679
Public service	6,637,829	385	6,638,214
Cultural and recreational	1,250,626	113,804	1,364,430
Debt service:			
Principal	1,714,394	38,886	1,753,280
Interest and other charges	343,819	1,842	345,661
	<u>26,089,356</u>	<u>383,964</u>	<u>26,473,320</u>
Total expenditures			
Revenues under expenditures	<u>(2,577,385)</u>	<u>(165,425)</u>	<u>(2,742,810)</u>
Other financing sources (uses):			
Transfers from other funds	768,594	-	768,594
Transfers to other funds	(563,826)	(69,666)	(633,492)
Installment purchase obligations issued	1,364,750	-	1,364,750
Sale of capital assets	60,030	-	60,030
	<u>1,629,548</u>	<u>(69,666)</u>	<u>1,559,882</u>
Total other financing sources (uses)			
Net change in fund balances	(947,837)	(235,091)	(1,182,928)
Fund balances, beginning	<u>11,439,966</u>	<u>1,256,219</u>	<u>12,696,185</u>
Fund balances, ending	<u>\$ 10,492,129</u>	<u>\$ 1,021,128</u>	<u>\$ 11,513,257</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, 2014

Exhibit 5

Total net change in fund balances - governmental funds \$ (1,182,928)

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 (\$3,523,746) exceeded capital outlays (\$2,768,218) in the current period. (755,528)

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	2,886,770
Change in unavailable revenue, property tax receivable	(54,355)
Change in unavailable revenue, due from other governments	607,444
Change in accrued interest receivable on property taxes	(8,770)

The issuance (\$1,364,750) of long-term debt provides current financial resources to governmental funds, while the repayment (\$1,753,280) 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. 388,530

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	(225,166)
Change in net pension obligation	(41,460)
Change in net other postemployment benefit obligation	(807,168)
Change in accrued interest payable	(8,848)
Net book value of disposed capital assets	(56,827)

Net loss of internal service funds determined to be governmental-type. (90,554)

Changes in net position of governmental activities \$ 651,140

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, 2014

Exhibit 6

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$ 12,626,676	\$ 12,626,676	\$ 13,151,903	\$ 525,227
Other taxes and licenses	150,010	150,010	112,099	(37,911)
Unrestricted intergovernmental	5,755,742	6,122,074	6,036,044	(86,030)
Restricted intergovernmental	1,112,430	2,747,278	938,908	(1,808,370)
Penalties and interest	31,910	31,910	16,742	(15,168)
Contributions and donations	802,601	828,257	849,414	21,157
Other general revenues	63,000	63,000	8,283	(54,717)
Functionally related revenues	2,149,704	2,306,104	2,398,460	92,356
Total revenues	<u>22,692,073</u>	<u>24,875,309</u>	<u>23,511,853</u>	<u>(1,363,456)</u>
Expenditures:				
Current:				
General government	3,949,501	4,268,580	3,971,548	297,032
Public safety	12,828,368	13,072,672	12,860,909	211,763
Public service	6,152,171	8,721,060	6,869,871	1,851,189
Cultural and recreational	1,298,455	1,342,406	1,289,468	52,938
Debt service	1,097,560	1,097,560	1,097,560	-
Total expenditures	<u>25,326,055</u>	<u>28,502,278</u>	<u>26,089,356</u>	<u>2,412,922</u>
Revenues under expenditures	<u>(2,633,982)</u>	<u>(3,626,969)</u>	<u>(2,577,503)</u>	<u>1,049,466</u>
Other financing sources (uses)				
Transfers from other funds	485,910	768,577	768,594	17
Transfers to other funds	(247,332)	(299,025)	(264,025)	35,000
Installment purchase obligations issued	1,872,750	1,372,750	1,364,750	(8,000)
Sale of capital assets	125,000	125,000	60,030	(64,970)
Group insurance reserve	-	(20,560)	-	20,560
Total other financing sources	<u>2,236,328</u>	<u>1,946,742</u>	<u>1,929,349</u>	<u>(17,393)</u>
Revenues and other sources under expenditures and other uses	<u>(397,654)</u>	<u>(1,680,227)</u>	<u>(648,154)</u>	<u>1,032,073</u>
Fund balance appropriated	<u>397,654</u>	<u>1,680,227</u>	<u>-</u>	<u>(1,680,227)</u>
Revenues, other sources and appropriated fund balance under expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>(648,154)</u>	<u>\$ (648,154)</u>
Fund balance, beginning			<u>10,319,243</u>	
Fund balance, ending			9,671,089	
A legally budgeted capital reserve fund is consolidated into the General Fund for reporting purposes:				
Fund balance, beginning			1,120,723	
Investment earnings			118	
Net transfers from other funds			<u>(299,801)</u>	
Fund balance, ending (Exhibit 4)			<u>\$ 10,492,129</u>	

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
June 30, 2014

Exhibit 7

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
ASSETS		
Current assets:		
Cash and investments	\$ 1,225,678	\$ 506,387
Total current assets	<u>1,225,678</u>	<u>506,387</u>
Noncurrent assets:		
Other capital assets, net	<u>213,296</u>	<u>-</u>
Total noncurrent assets	<u>213,296</u>	<u>-</u>
Total assets	<u><u>\$ 1,438,974</u></u>	<u><u>\$ 506,387</u></u>
 LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 29,418	\$ 11,238
Claims and judgments	-	250,682
Current portion of long-term liabilities	<u>18,706</u>	<u>-</u>
Total current liabilities	<u>48,124</u>	<u>261,920</u>
 NET POSITION		
Net investment in capital assets	213,296	-
Unrestricted	<u>1,177,554</u>	<u>244,467</u>
Total net position	<u>1,390,850</u>	<u>244,467</u>
Total liabilities and net position	<u><u>\$ 1,438,974</u></u>	<u><u>\$ 506,387</u></u>

The accompanying notes are an integral part of this statement.

TOWN OF KERNERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

Exhibit 8

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
OPERATING REVENUES		
Charges for services	\$ 1,013,509	\$ 230,732
TOTAL OPERATING REVENUES	<u>1,013,509</u>	<u>230,732</u>
OPERATING EXPENSES		
Personnel services	370,677	-
Depreciation	25,427	-
Other current charges	231,618	-
Claims incurred	-	258,314
Stop-loss coverage	-	53,592
Administration	-	9,400
TOTAL OPERATING EXPENSES	<u>627,722</u>	<u>321,306</u>
OPERATING INCOME (LOSS)	<u>385,787</u>	<u>(90,574)</u>
NON OPERATING REVENUES		
Investment earnings	90	20
TOTAL NONOPERATING REVENUES	<u>90</u>	<u>20</u>
INCOME (LOSS) BEFORE TRANSFERS	385,877	(90,554)
TRANSFERS		
Transfers from other funds	212,332	-
Transfers to other funds	<u>(347,434)</u>	<u>-</u>
CHANGE IN NET POSITION	250,775	(90,554)
TOTAL NET POSITION, beginning of year	<u>1,140,075</u>	<u>335,021</u>
TOTAL NET POSITION, end of year	<u>\$ 1,390,850</u>	<u>\$ 244,467</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, 2014

Exhibit 9

	Enterprise Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,013,509	\$ -
Cash paid for goods and services	(228,414)	(53,592)
Cash paid to or on behalf of employees for services	(370,445)	-
Receipts from other funds	-	230,732
Payment of claims	-	(168,150)
Payment of fee to administrator	-	(9,400)
	NET CASH PROVIDED (USED)	BY OPERATING ACTIVITIES
	414,650	(410)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in from other funds	212,332	-
Transfers out to other funds	(347,434)	-
	NET CASH USED BY NONCAPITAL	FINANCING ACTIVITIES
	(135,102)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	90	20
	NET CASH PROVIDED BY	INVESTING ACTIVITIES
	90	20
	NET INCREASE (DECREASE) IN	CASH AND CASH EQUIVALENTS
	279,638	(390)
CASH AND CASH EQUIVALENTS, BEGINNING	946,040	506,777
	CASH AND CASH	EQUIVALENTS, ENDING
	\$ 1,225,678	\$ 506,387
RECONCILIATION OF OPERATING INCOME (LOSS) TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 385,787	\$ (90,574)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	25,427	-
Change in assets and liabilities:		
Increase (decrease) in account payable and accrued liabilities	3,204	(23,863)
Increase in claims and judgments	-	114,027
Increase in accrued vacation pay	232	-
	NET CASH PROVIDED (USED)	BY OPERATING ACTIVITIES
	\$ 414,650	\$ (410)

The accompanying notes are an integral part of this statement.

THIS PAGE LEFT INTENTIONALLY BLANK.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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, 2014

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

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

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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.

C. Measurement Focus and Basis of Accounting

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

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

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

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

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The Town considers all revenues available if they are collected within 90 days after year end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, state law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the state of North Carolina is responsible for the billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the state at year end on behalf of the Town are recognized as revenue. 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.

D. Budgetary Data

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

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by state law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States; or obligations fully guaranteed, both as to principal and interest, by the United States; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

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

3. Restricted Assets

Performance bonds in the amount of \$260,215 are classified as restricted cash on the balance sheet. The Town requires developers/contractors to pay a performance bond to guarantee successful performance on certain construction projects. Once the Town has ensured that the work has been satisfactorily completed, the performance bonds are released.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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

4. Ad Valorem Taxes Receivable

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

5. Allowances for Doubtful Accounts

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

6. Prepaid Assets

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain amount and an estimated useful life in excess of 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, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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

7. Capital Assets (Continued)

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

Asset Class	Estimated Useful Lives
Infrastructure, buildings and improvements	25 to 50 years
Furniture, equipment, heavy equipment, and vehicles	5 to 10 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 two items that meet the criterion for this category: property taxes receivable and amounts due from other governments that are not yet available.

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, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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

10. Compensated Absences

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

For the Town's government-wide funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

11. Net Position/Fund Balances

Net Position

Net 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, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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

11. Net Position/Fund Balances (Continued)

Fund Balances (Continued)

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

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 the government through formal action (Ordinances and Resolutions) at the highest level of decision-making authority (Town of Kernersville's Board). 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, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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

11. Net Position/Fund Balances (Continued)

Fund Balances (Continued)

Assigned Fund Balance - portion of fund balance that the Town of Kernersville intends to use for specific purposes 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 2014-2015 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, 2014

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

At June 30, 2014, the Town's deposits had a carrying amount of \$5,020,651 and a bank balance of \$5,136,765. Of the bank balance, \$498,560 was covered by federal depository insurance, \$305,244 was covered by collateral held under the Dedicated Method, and the remainder was covered by collateral held under the Pooling Method.

At June 30, 2014, the Town's petty cash fund totaled \$5,950.

2. Investments

At June 30, 2014, the Town had \$7,705,218 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, 2014

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	\$ 1,041,958
Sales tax refunds	124,024
Utilities franchise, video programming, solid waste, and telecommunications tax	338,973
Rental vehicle tax	10,914
Alcohol beverage tax	63,120
NCDOT grant reimbursements	748,590
NCDENR grant reimbursement	25,000
NCVTS tag and tax proceeds	97,828
Ad valorem taxes receivable	<u>10,735</u>
Total General Fund	2,461,142
Occupancy Tax Fund	
Occupancy tax reimbursement	<u>10,187</u>
	<u>\$ 2,471,329</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, 2014</u>
General Fund	
Taxes receivable	<u>\$ 73,000</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets

Capital asset activity for the year ended June 30, 2014 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	\$ 67,037,417	\$ 1,480,248	\$ (50,487)	\$ 68,467,178
Construction in progress	<u>48,886</u>	<u>1,370,008</u>	<u>(48,886)</u>	<u>1,370,008</u>
Total capital assets not being depreciated	<u>67,086,303</u>	<u>\$ 2,850,256</u>	<u>\$ (99,373)</u>	<u>69,837,186</u>
Capital assets being depreciated:				
Buildings and improvements	11,467,956	\$ -	\$ -	11,467,956
Land improvements	2,687,030	-	-	2,687,030
Infrastructure	85,929,711	1,416,520	(37,206)	87,309,025
Equipment and heavy equipment	10,830,147	1,203,097	(493,047)	11,540,197
Vehicles	<u>3,072,359</u>	<u>234,001</u>	<u>-</u>	<u>3,306,360</u>
Total capital assets being depreciated	<u>113,987,203</u>	<u>\$ 2,853,618</u>	<u>\$ (530,253)</u>	<u>116,310,568</u>
Less accumulated depreciation for:				
Buildings and improvements	5,061,664	\$ 226,287	\$ -	5,287,951
Land improvements	1,386,246	107,486	-	1,493,732
Infrastructure	38,000,959	2,157,113	(30,866)	40,127,206
Equipment and heavy equipment	8,127,642	819,784	(493,047)	8,454,379
Vehicles	<u>2,419,518</u>	<u>213,076</u>	<u>-</u>	<u>2,632,594</u>
Total accumulated depreciation	<u>54,996,029</u>	<u>\$ 3,523,746</u>	<u>\$ (523,913)</u>	<u>57,995,862</u>
Total capital assets being depreciated, net	<u>58,991,174</u>			<u>58,314,706</u>
Governmental activity capital assets, net	<u>\$ 126,077,477</u>			<u>\$ 128,151,892</u>

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

General government	\$ 173,890
Public safety	711,605
Public service	2,426,043
Culture and recreation	<u>212,208</u>
Total governmental activities	<u>\$ 3,523,746</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Stormwater Fund</i>				
Capital assets being depreciated:				
Infrastructure	\$ 137,185	\$ -	\$ -	\$ 137,185
Equipment and heavy equipment	315,747	-	-	315,747
Vehicles	42,687	-	-	42,687
Total capital assets being depreciated	495,619	\$ -	\$ -	495,619
Less accumulated depreciation for:				
Infrastructure	20,864	\$ 3,429	\$ -	24,293
Equipment and heavy equipment	218,039	17,765	-	235,804
Vehicles	17,993	4,233	-	22,226
Total accumulated depreciation	256,896	\$ 25,427	\$ -	282,323
Total capital assets being depreciated, net	238,723			213,296
Stormwater fund capital assets, net	\$ 238,723			\$ 213,296

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities

1. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Governmental Activities	Business- Type Activities	Total
Payable to vendors and others	\$ 826,964	\$ 14,371	\$ 841,335
Accrued payroll and related liabilities	639,364	15,047	654,411
Total accounts payable and accrued liabilities	\$ 1,466,328	\$ 29,418	\$ 1,495,746

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 7.07% and 7.28%, 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, 2014, 2013 and 2012 were \$784,294, \$741,923 and \$742,371, 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, 2014

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. Participants may also make voluntary contributions to the Plan. Contributions for the year ended June 30, 2014 were \$402,250, which consisted of \$157,713 from the Town and \$244,537 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, 2014

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, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	6
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	66
Total	72

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, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included: (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level dollar of pay on a closed basis. The remaining amortization period at December 31, 2013 was 17 years.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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	\$ 178,885
Interest on net pension obligation	46,597
Adjustment to annual required contribution	<u>(75,927)</u>
 Annual pension cost	 149,555
Contributions made	<u>(108,095)</u>
 Increase in net pension obligation	 41,460
Net pension obligation, beginning of year	<u>931,933</u>
 Net pension obligation, end of year	 <u>\$ 973,393</u>

Funded Status and Funding Process: As of December 31, 2013, 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 \$1,690,078. The covered payroll (annual payroll of active employees covered by the plan) was \$3,179,396, and the ratio of the UAAL to the covered payroll was 53.16%.

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>
6/30/12	\$ 141,753	47.49%	\$ 872,419
6/30/13	154,728	61.54%	931,933
6/30/14	149,555	72.28%	973,393

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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, 2014

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 \$596 to \$1,043 per month for dependent coverage depending on the coverage elections. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 8.6% of annual covered payroll. For the current year, the Town contributed \$128,673 or 1.19% 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 0.76% and 0.43% of covered payroll, respectively. There were no contributions made by employees to postemployment benefits. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Board of Aldermen.

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

Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation. The Town's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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>(128,673)</u>
Increase in net OPEB obligation	807,168
Net OPEB obligation, beginning of year	<u>3,638,661</u>
Net OPEB obligation, end of year	<u>\$ 4,445,829</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2014 were as follows:

<u>For Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 903,727	11.7%	\$ 2,797,938
2013	935,841	10.2%	3,638,661
2014	935,841	13.7%	4,445,829

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, 2014

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, 2014

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 \$50,000 or be less than \$25,000. 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, 2014, 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 are comprised of unavailable revenue of \$422,805 related to property taxes receivable and \$607,444 related to due from other governments for funds not yet available. These amounts are recorded in the General Fund.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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 American Alternative Insurance Corporation. The Town's auto liability coverage has limits up to \$1,000,000 per occurrence, and the general liability coverage has limits up to \$3,000,000 per occurrence, depending on the type of loss. Property coverage is limited up to the total insurance values of the property policy.

The Town is self-funded for workers' compensation insurance. All claims are administered by a third-party administrator. The third-party administrator pays all bills for compensable claims and files documents required by the North Carolina Industrial Commission by personnel licensed to adjust workers' compensation claims in the state of North Carolina. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The estimate of the claims liability also includes other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries from salvage or subrogation, for example, are another component of the claims liability estimate. The Town is insured by Safety National Casualty Corporation for workers' compensation claims in excess of \$550,000 up to statutory limits.

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

The Town carries flood insurance through 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 excess 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, 2014

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>2014</u>	<u>2013</u>
Unpaid claims, beginning of fiscal year	\$ 136,655	\$ 144,255
Incurred claims (including IBNRs)	258,314	197,784
Claim payments	<u>(144,287)</u>	<u>(205,384)</u>
Unpaid claims, end of fiscal year	<u>\$ 250,682</u>	<u>\$ 136,655</u>

6. Claims and Judgments

At June 30, 2014, 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.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations

a. Installment Purchase Agreements - Equipment and Construction

The Town has entered into installment purchase agreements for the purchase and/or improvement of personal property including vehicles and equipment, as well as real property consisting of land and building improvements. The title to these assets is held in the name of the Town, and security interest has been granted to the financing institution. The installment purchase notes payable at June 30, 2014 are as follows:

Installment purchase note payable in the original amount of \$554,354 to refinance the purchase of a fire truck. The agreement requires a total of seven annual fixed payments of \$91,917, including interest at 3.87%. Payments are due beginning April 4, 2009, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on April 4, 2015. \$ 88,493

Installment purchase note payable in the original amount of \$646,200 for the purchase of various vehicles and equipment. The agreement requires a total of five annual fixed payments of \$134,628, including interest at 2.085%. Payments are due beginning September 3, 2010, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 3, 2014. 131,879

Installment purchase note payable in the original amount of \$883,000 for the purchase of various vehicles and equipment. The agreement requires a total of five annual fixed payments of \$182,092, including interest at 1.555%. Payments are due beginning September 28, 2011, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 28, 2015. 355,861

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

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

Installment purchase note payable in the original amount of \$500,000 for the financing of various construction projects. The agreement requires a total of five annual variable payments with a fixed principal component of \$100,000, plus interest at 1.63%. Payments are due beginning April 4, 2012, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on April 4, 2016. \$ 200,000

Installment purchase note payable in the original amount of \$687,000 for the purchase of various vehicles and equipment. The agreement requires a total of five annual fixed payments of \$141,549, including interest at 1.51%. Payments are due beginning September 20, 2012, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 20, 2016. 412,138

Installment purchase note payable in the original amount of \$1,218,500 for the purchase of various land and buildings. The agreement requires a total of 15 annual variable payments with a fixed principal component of \$81,233, plus interest at 2.25%. Payments are due beginning August 20, 2012, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on August 20, 2026. 1,056,033

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

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

Installment purchase note payable in the original amount of \$364,750 for the purchase of various vehicles and equipment. The agreement requires a total of five annual fixed payments of \$75,036, including interest at 1.43%. Payments are due beginning September 13, 2013, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 13, 2017. \$ 289,714

Installment purchase note payable in the original amount of \$1,000,000 for the purchase of a fire truck. The agreement requires a total of 12 annual fixed payments of \$93,905, including interest at 2.25%. Payments are due beginning November 8, 2013, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on November 8, 2024. 906,096

Total \$ 3,440,214

Annual debt service payments of the installment purchases as of June 30, 2014 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 857,899	\$ 69,482
2016	644,985	52,393
2017	370,475	41,353
2018	233,804	34,648
2019	161,594	29,994
2020 - 2024	835,919	94,603
2025 - 2027	<u>335,538</u>	<u>13,033</u>
Total	<u>\$ 3,440,214</u>	<u>\$ 335,506</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

b. General Obligation Indebtedness

On May 3, 2004, the Town issued \$7,000,000 in general obligation 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, 2014 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. \$ 4,000,000

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

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2019	400,000	104,400	504,400
Next 5 years	<u>2,000,000</u>	<u>268,000</u>	<u>2,268,000</u>
	<u>\$ 4,000,000</u>	<u>\$ 944,800</u>	<u>\$ 4,944,800</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Long-Term Obligations (Continued)

b. General Obligation Indebtedness (Continued)

The State of North Carolina limits the general obligation borrowing of the Town to 8% of its total appraised value of property subject to Town taxation. The Town's legal debt margin, as of June 30, 2014, is as follows:

Assessed value for taxation	\$ 2,550,261,901
Legal debt margin (8%)	204,020,952
Debt applicable to limitation:	
Outstanding general obligation debt	4,000,000
Revolving loan payable	4,400,000
Installment purchases	<u>3,440,214</u>
Total net debt applicable to limit	11,840,214
Remaining legal debt margin	<u>\$ 192,180,738</u>

c. Revolving Loan Payable

On June 3, 2003, the Town was approved for a maximum loan amount of \$8,000,000 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Clean Water State Revolving Fund. The loan proceeds were used to assist in the relocation of the Deep River Pump Station, construction of the Twin Creek Pump Station, and construction of new force mains and interceptors ending at the Abbott's Creek Pump Station. The loan is repayable in equal principal repayments of \$400,000 plus interest at 2.42% through fiscal year ending 2025. The Town repaid \$400,000 during fiscal year ended June 30, 2014. The total amount outstanding at June 30, 2014 was \$4,400,000.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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
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
2019	400,000	67,760	467,760
Next 5 years	2,000,000	193,600	2,193,600
Next 1 year	<u>400,000</u>	<u>9,680</u>	<u>409,680</u>
	<u>\$ 4,400,000</u>	<u>\$ 638,880</u>	<u>\$ 5,038,880</u>

d. Changes in Long-Term Obligations

During the year ended June 30, 2014, the following changes occurred in long-term obligations:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014	Current Portion of Balance
Governmental activities:					
General obligation bonds	\$ 4,400,000	\$ -	\$ (400,000)	\$ 4,000,000	\$ 400,000
Revolving loan payable	4,800,000	-	(400,000)	4,400,000	400,000
Installment purchases	3,028,744	1,364,750	(953,280)	3,440,214	857,899
Compensated absences	1,232,779	1,751,363	(1,526,197)	1,457,945	1,457,945
Net pension obligation	931,933	149,555	(108,095)	973,393	-
Net OPEB obligation	<u>3,638,661</u>	<u>935,841</u>	<u>(128,673)</u>	<u>4,445,829</u>	<u>-</u>
	<u>\$ 18,032,117</u>	<u>\$ 4,201,509</u>	<u>\$ (3,516,245)</u>	<u>\$ 18,717,381</u>	<u>\$ 3,115,844</u>
Business-type activities:					
Compensated absences	\$ 18,474	\$ 58,019	\$ (57,786)	\$ 18,706	\$ 18,706
	<u>\$ 18,474</u>	<u>\$ 58,019</u>	<u>\$ (57,786)</u>	<u>\$ 18,706</u>	<u>\$ 18,706</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, 2014

Note 2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Commitments

The Town has entered into an agreement to contribute a total of \$750,000 in 15 variable annual payments through fiscal year ending June 30, 2015 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, 2014 amounted to \$60,000. The Town includes the obligation in its budget ordinance for each year during the term. The last remaining commitment amount for the following fiscal year is \$10,000.

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2014 consist of the following:

From the General Fund to the Stormwater Fund for storm water fees.	\$ 212,332
From the General Fund to the Capital Reserve Fund for future group insurance expense.	25,656
From the General Fund to the Capital Reserve Fund for future capital projects.	26,037
From the Capital Reserve Fund to the General Fund for the Piney Grove Widening.	351,900
From the Capital Reserve Fund to the General Fund for interest income.	118
From the Stormwater Fund to the General Fund for final reimbursement of expenses.	346,910
From the Stormwater Fund to the Capital Reserve Fund for future group insurance expense.	524
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 \$34,666 transfer from Kerner Mill Greenway Capital Projects Ordinance Fund for street projects.	<u>69,666</u>
	<u>\$ 1,033,143</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 2. Detail Notes on All Funds (Continued)

D. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-Type</u>
Capital assets	\$ 128,151,892	\$ 213,296
Less: related debt		
General obligation bonds	4,000,000	-
Installment purchase notes payable	3,440,214	-
Net investment in capital assets	<u>\$ 120,711,678</u>	<u>\$ 213,296</u>

E. Fund Balance

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

Total fund balance - General Fund	\$ 10,492,129
Less:	
Prepaid assets	222,957
Stabilization by state statute	1,782,860
Capital projects	821,040
Appropriated fund balance in 2014 budget	226,126
Unassigned fund balance	7,439,146
Working capital/fund balance policy	5,470,883
Remaining fund balance	<u>\$ 1,968,263</u>

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

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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>	Increase (Decrease)		<u>Exhibit 6</u>
General government	\$ 3,824,056	\$ 147,492	(1)	\$ 3,971,548
Public safety	12,318,632	542,277	(1)	12,860,909
Public service	6,637,829	232,042	(1)	6,869,871
Culture and recreation	1,250,626	38,842	(1)	1,289,468
Debt service	-	1,097,560	(1)	1,097,560
Principal retirement	1,714,394	(1,714,394)	(1)	-
Interest and fiscal charges	<u>343,819</u>	<u>(343,819)</u>	(1)	<u>-</u>
Total	<u>\$ 26,089,356</u>	<u>\$ -</u>		<u>\$ 26,089,356</u>

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

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, 2014.

The Town, along with six other municipalities and Forsyth County, is also a participating member of the Triad Municipal ABC Board. This organization was established under North Carolina Alcoholic Beverage laws to operate liquor stores. The Town of Kernersville appoints one member to a nine-member governing board. The Town also receives a portion of the income distributed by the Board. This distribution amounted to \$294,663 during the fiscal year ended June 30, 2014.

TOWN OF KERNERSVILLE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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. Subsequent Event

On July 29, 2014, the Town issued General Obligation Refunding Bonds, Series 2014, in the amount of \$4,065,000, as approved by a resolution adopted by the Board of Aldermen on June 24, 2014. The bonds bear interest at a rate of 2.15% per annum and shall mature in annual principal installments each May 1st with a final maturity date on May 1, 2024. The proceeds of the bonds are to be used to refund the Town's outstanding General Obligation Street Bonds, Series 2004, and pay certain fees and expenses incurred in connection with the sale and issuance of the bonds.

THIS PAGE LEFT INTENTIONALLY BLANK.

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.

THIS PAGE LEFT INTENTIONALLY BLANK.

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

Exhibit A-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) ÷ (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) - (a)) ÷ (c)
12/31/04	\$ -	\$ 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%
12/31/13	-	1,690,078	1,690,078	0.00%	3,179,396	53.16%

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

Exhibit A-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Annual Percentage Contributed</u>
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%
2014	178,885	60.43%

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, 2013
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	17 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return *	5.00%
Projected salary increases *	4.25% - 7.85%
* Includes inflation at	3.00%
Cost of living adjustments	N/A

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

Exhibit B-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) ÷ (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) - (a)) ÷ (c)
12/31/2008	\$ -	\$ 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**

Exhibit B-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Annual Percentage Contributed</u>
2012	\$ 903,727	8.70%
2013	930,839	11.70%
2014	930,839	13.80%

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

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

THIS PAGE LEFT INTENTIONALLY BLANK.

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, 2014

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	\$ 12,428,751	\$ 12,976,349	\$ 547,598
Prior	197,925	175,554	(22,371)
	<u>12,626,676</u>	<u>13,151,903</u>	<u>525,227</u>
Other taxes and licenses:			
Local vehicle fees tax	98,500	63,319	(35,181)
Cablevision fees	51,510	48,780	(2,730)
	<u>150,010</u>	<u>112,099</u>	<u>(37,911)</u>
Unrestricted intergovernmental:			
Solid waste disposal tax	18,000	14,556	(3,444)
Utility franchise	918,834	984,368	65,534
Telecommunications tax	260,739	241,753	(18,986)
Alcoholic beverage tax	358,955	398,872	39,917
Hold harmless distribution	330,717	330,716	(1)
Local option sales and use tax	3,953,899	3,751,318	(202,581)
Rental vehicle fees	29,700	60,957	31,257
Video programming	251,230	253,504	2,274
	<u>6,122,074</u>	<u>6,036,044</u>	<u>(86,030)</u>
Restricted intergovernmental:			
Powell Bill	614,930	642,857	27,927
State transportation grants	1,227,800	183,472	(1,044,328)
CCUC reimbursements	819,000	-	(819,000)
Governor's Highway Safety grants	46,478	56,811	10,333
NC Department of Pollution grant	25,000	32,500	7,500
Federal Department of Justice grants	14,070	23,268	9,198
	<u>2,747,278</u>	<u>938,908</u>	<u>(1,808,370)</u>
Penalties and interest:			
Penalties and interest	21,000	8,751	(12,249)
Investment earnings	10,910	7,991	(2,919)
	<u>31,910</u>	<u>16,742</u>	<u>(15,168)</u>
Contributions and donations	<u>828,257</u>	<u>849,414</u>	<u>21,157</u>
Other general revenues:			
Other	63,000	8,283	(54,717)
Total general revenues	<u>22,569,205</u>	<u>21,113,393</u>	<u>(1,455,812)</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, 2014**

Schedule 1
Page 2 of 5

	Final Budget	Actual	Variance Positive (Negative)
Functionally related revenues:			
Use and rental fees:			
Recreation revenue	\$ 240,685	\$ 239,975	\$ (710)
Commercial industrial collection fees	704,500	707,670	3,170
Court facility fees	23,000	31,447	8,447
Rent on town property	501,148	522,308	21,160
Building inspections	321,400	331,035	9,635
Zoning fees	20,000	60,025	40,025
Recycling revenue	206,082	208,361	2,279
Yard waste cart fees and sales	113,500	81,360	(32,140)
Other functionally related fees	175,789	216,279	40,490
Total functionally related revenues	2,306,104	2,398,460	92,356
Total revenues	24,875,309	23,511,853	(1,363,456)
Expenditures:			
Current:			
General government:			
Governing body:			
Personnel services		31,599	
Other operating expenditures		424,941	
Installment purchase agreement payments		91,436	
	563,085	547,976	15,109
Administration:			
Personnel services		264,039	
Other operating expenditures		21,779	
Capital outlay		523,170	
	959,674	808,988	150,686
Finance:			
Personnel services		389,967	
Other operating expenditures		328,496	
Installment purchase agreement payments		5,568	
	775,883	724,031	51,852
Information technology:			
Personnel services		238,901	
Other operating expenditures		153,762	
Capital outlay		55,139	
Installment purchase agreement payments		30,980	
	480,039	478,782	1,257

**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, 2014**

Schedule 1
Page 3 of 5

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Planning and zoning:			
Personnel services		\$ 313,900	
Other operating expenditures		27,535	
	<u>354,102</u>	<u>341,435</u>	<u>12,667</u>
Personnel:			
Personnel services		466,719	
Other operating expenditures		132,413	
	<u>622,620</u>	<u>599,132</u>	<u>23,488</u>
General services:			
Personnel services		139,532	
Other operating expenditures		312,164	
Installment purchase agreement payments		19,508	
	<u>513,177</u>	<u>471,204</u>	<u>41,973</u>
Total general government	<u>4,268,580</u>	<u>3,971,548</u>	<u>297,032</u>
Public safety:			
Police department:			
Personnel services		5,580,969	
Other operating expenditures		565,464	
Capital outlay		116,537	
Installment purchase agreement payments		271,890	
	<u>6,643,534</u>	<u>6,534,860</u>	<u>108,674</u>
Fire department:			
Personnel services		4,220,540	
Other operating expenditures		538,096	
Capital outlay		998,382	
Installment purchase agreement payments		270,387	
	<u>6,125,395</u>	<u>6,027,405</u>	<u>97,990</u>
Inspections:			
Personnel services		279,512	
Other operating expenditures		19,132	
	<u>303,743</u>	<u>298,644</u>	<u>5,099</u>
Total public safety	<u>13,072,672</u>	<u>12,860,909</u>	<u>211,763</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, 2014**

Schedule 1
Page 4 of 5

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public service:			
Engineering department:			
Personnel services		\$ 165,649	
Other operating expenditures		32,435	
	<u>912,684</u>	<u>198,084</u>	<u>714,600</u>
Street department:			
Personnel services		762,314	
Other operating expenditures		1,031,418	
Capital outlay		130,811	
Installment purchase agreement payments		13,372	
	<u>2,179,366</u>	<u>1,937,915</u>	<u>241,451</u>
Transportation department:			
Personnel services		143,348	
Other operating expenditures		158,839	
Capital outlay		856,839	
Installment purchase agreement payments		62,929	
	<u>1,949,784</u>	<u>1,221,955</u>	<u>727,829</u>
Sanitation department:			
Personnel services		908,269	
Other operating expenditures		723,260	
Capital outlay		28,900	
Installment purchase agreement payments		169,113	
	<u>1,870,753</u>	<u>1,829,542</u>	<u>41,211</u>
Public works administration:			
Personnel services		300,257	
Other operating expenditures		30,668	
	<u>338,059</u>	<u>330,925</u>	<u>7,134</u>
Central maintenance:			
Personnel services		420,709	
Other operating expenditures		872,301	
Capital outlay		58,440	
	<u>1,470,414</u>	<u>1,351,450</u>	<u>118,964</u>
Total public service	<u>8,721,060</u>	<u>6,869,871</u>	<u>1,851,189</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, 2014**

Schedule 1
Page 5 of 5

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Cultural and recreational:			
Recreation department:			
Personnel services		\$ 601,307	
Other operating expenditures		604,718	
Installment purchase agreement payments		38,842	
	<u>1,281,379</u>	<u>1,244,867</u>	<u>36,512</u>
Paddison Library:			
Other operating expenditures		44,601	
	<u>61,027</u>	<u>44,601</u>	<u>16,426</u>
Total cultural and recreational	<u>1,342,406</u>	<u>1,289,468</u>	<u>52,938</u>
Debt service:			
Principal retirement	800,000	800,000	-
Interest and fiscal charges	297,560	297,560	-
Total debt service	<u>1,097,560</u>	<u>1,097,560</u>	<u>-</u>
Total expenditures	<u>28,502,278</u>	<u>26,089,356</u>	<u>2,412,922</u>
Revenues under expenditures	<u>(3,626,969)</u>	<u>(2,577,503)</u>	<u>1,049,466</u>
Other financing sources (uses):			
Transfers from other funds:			
Occupancy Tax Fund	35,000	35,000	-
Kerner Mill Greenway Capital Projects Ordinance Fund	34,667	34,666	(1)
Stormwater Fund	346,910	346,910	-
Capital Reserve Fund	352,000	352,018	18
Transfers to other funds:			
Contributions Fund	(35,000)	-	35,000
Stormwater Fund	(212,332)	(212,332)	-
Capital Reserve Fund	(51,693)	(51,693)	-
Total net transfers	<u>469,552</u>	<u>504,569</u>	<u>35,017</u>
Installment purchase obligations issued	1,372,750	1,364,750	(8,000)
Sale of capital assets	125,000	60,030	(64,970)
Group insurance reserve	(20,560)	-	20,560
Total other financing sources	<u>1,946,742</u>	<u>1,929,349</u>	<u>(17,393)</u>
Revenues and other sources under expenditures and other uses	<u>(1,680,227)</u>	<u>(648,154)</u>	<u>1,032,073</u>
Appropriated fund balance	<u>1,680,227</u>	<u>-</u>	<u>(1,680,227)</u>
Revenues, other sources and appropriated fund balance under expenditures and other uses	<u>\$ -</u>	<u>(648,154)</u>	<u>\$ (648,154)</u>
Fund balance, beginning		<u>10,319,243</u>	
Fund balance, ending		<u>\$ 9,671,089</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, 2014

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	\$ 35	\$ 100	\$ 118	\$ 18
Expenditures:				
Capital reserve expenditures	-	820,893	-	820,893
Revenues over (under) expenditures	35	(820,793)	118	820,911
Other financing sources (uses):				
Transfers in:				
General Fund	-	51,693	51,693	-
Stormwater Fund	-	524	524	-
Transfers out:				
General Fund	(35)	(352,000)	(352,018)	(18)
Total other financing uses	(35)	(299,783)	(299,801)	(18)
Revenues and other uses under expenditures	-	(1,120,576)	(299,683)	820,893
Appropriated fund balance	-	1,120,576	-	(1,120,576)
Revenues, other uses and appropriated fund balance under expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	(299,683)	<u>\$ (299,683)</u>
Fund balance, beginning			<u>1,120,723</u>	
Fund balance, ending			<u>\$ 821,040</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, 2014**

	Nonmajor Special Revenue Funds		
	Occupancy Tax Fund	Emergency Telephone System Fund	Contributions Fund
ASSETS			
Cash and investments	\$ 6,293	\$ 10,048	\$ 85,278
Due from other governments	10,187	-	-
Total assets	\$ 16,480	\$ 10,048	\$ 85,278
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 207
Total liabilities	-	-	207
Fund balances:			
Restricted			
Stabilization by state statute	10,187	-	-
Tourism	6,293	-	-
Public safety	-	10,048	-
Drug education	-	-	85,071
Committed			
Capital projects	-	-	-
Total fund balances	16,480	10,048	85,071
Total liabilities and fund balances	\$ 16,480	\$ 10,048	\$ 85,278

<u>Nonmajor Special Revenue Funds</u>		<u>Nonmajor Capital Project Funds</u>		<u>Total Nonmajor Governmental Funds</u>
<u>Law Enforcement Forfeitures Fund</u>	<u>Federal Justice Assistance Grant Fund</u>	<u>Public Works Facility Capital Projects Ordinance Fund</u>	<u>Kerner Mill Greenway Capital Projects Ordinance Fund</u>	
\$ 253,560	\$ 599	\$ 555,692	\$ 103,132	\$ 1,014,602
-	-	-	-	10,187
<u>\$ 253,560</u>	<u>\$ 599</u>	<u>\$ 555,692</u>	<u>\$ 103,132</u>	<u>\$ 1,024,789</u>
\$ 3,454	\$ -	\$ -	\$ -	\$ 3,661
<u>3,454</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,661</u>
-	-	-	-	10,187
-	-	-	-	6,293
250,106	599	-	-	260,753
-	-	-	-	85,071
<u>-</u>	<u>-</u>	<u>555,692</u>	<u>103,132</u>	<u>658,824</u>
<u>250,106</u>	<u>599</u>	<u>555,692</u>	<u>103,132</u>	<u>1,021,128</u>
<u>\$ 253,560</u>	<u>\$ 599</u>	<u>\$ 555,692</u>	<u>\$ 103,132</u>	<u>\$ 1,024,789</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, 2014**

	<u>Nonmajor Special Revenue Funds</u>		
	<u>Occupancy Tax Fund</u>	<u>Emergency Telephone System Fund</u>	<u>Contributions Fund</u>
Revenues:			
Other taxes and licenses	\$ 106,656	\$ -	\$ -
Restricted intergovernmental	-	-	-
Investment earnings	5	-	3
Contributions and donations	-	-	5,003
Total revenues	<u>106,661</u>	<u>-</u>	<u>5,006</u>
Expenditures:			
Public safety	-	24,894	3,879
Public service	-	-	385
Cultural and recreational	87,500	-	-
Debt service:			
Principal	-	38,886	-
Interest and other charges	-	1,842	-
Total expenditures	<u>87,500</u>	<u>65,622</u>	<u>4,264</u>
Revenues over (under) expenditures	<u>19,161</u>	<u>(65,622)</u>	<u>742</u>
Other financing uses:			
Transfers out:			
General Fund	<u>(35,000)</u>	<u>-</u>	<u>-</u>
Total other financing uses	<u>(35,000)</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures and other financing uses	<u>(15,839)</u>	<u>(65,622)</u>	<u>742</u>
Fund balances, beginning	<u>32,319</u>	<u>75,670</u>	<u>84,329</u>
Fund balances, ending	<u>\$ 16,480</u>	<u>\$ 10,048</u>	<u>\$ 85,071</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>
\$ -	\$ -	\$ -	\$ -	\$ 106,656
106,791	-	-	-	106,791
16	-	52	13	89
-	-	-	-	5,003
<u>106,807</u>	<u>-</u>	<u>52</u>	<u>13</u>	<u>218,539</u>
200,274	-	-	-	229,047
-	-	-	-	385
-	-	-	26,304	113,804
-	-	-	-	38,886
-	-	-	-	1,842
<u>200,274</u>	<u>-</u>	<u>-</u>	<u>26,304</u>	<u>383,964</u>
<u>(93,467)</u>	<u>-</u>	<u>52</u>	<u>(26,291)</u>	<u>(165,425)</u>
-	-	-	(34,666)	(69,666)
-	-	-	(34,666)	(69,666)
(93,467)	-	52	(60,957)	(235,091)
<u>343,573</u>	<u>599</u>	<u>555,640</u>	<u>164,089</u>	<u>1,256,219</u>
<u>\$ 250,106</u>	<u>\$ 599</u>	<u>\$ 555,692</u>	<u>\$ 103,132</u>	<u>\$ 1,021,128</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, 2014

Schedule 5

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Other taxes and licenses:				
Occupancy tax			\$ 106,656	
Investment earnings			5	
Total revenues	91,007	91,007	106,661	15,654
Expenditures:				
Cultural and recreational			87,500	
Total expenditures	64,500	87,500	87,500	-
Revenues over expenditures	26,507	3,507	19,161	15,654
Other financing uses:				
Transfers out:				
General Fund	(35,000)	(35,000)	(35,000)	-
Revenues under expenditures and other uses	(8,493)	(31,493)	(15,839)	15,654
Appropriated fund balance	8,493	31,493	-	(31,493)
Revenues and appropriated fund balance under expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	(15,839)	<u>\$ (15,839)</u>
Fund balance, beginning			32,319	
Fund balance, ending			<u>\$ 16,480</u>	

**TOWN OF KERNERSVILLE, NORTH CAROLINA
EMERGENCY TELEPHONE SYSTEM FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014**

Schedule 6

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
Revenues:				
Restricted intergovernmental	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Public safety:				
Other operating expenditures			24,894	
Debt service:				
Principal retirement			38,886	
Interest and other charges			1,842	
Total expenditures	<u>72,776</u>	<u>72,776</u>	<u>65,622</u>	<u>7,154</u>
Revenues under expenditures	<u>(72,776)</u>	<u>(72,776)</u>	<u>(65,622)</u>	<u>7,154</u>
Appropriated fund balance	<u>72,776</u>	<u>72,776</u>	<u>-</u>	<u>(72,776)</u>
Revenues and appropriated fund balance under expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(65,622)</u>	<u>\$ (65,622)</u>
Fund balance, beginning			<u>75,670</u>	
Fund balance, ending			<u>\$ 10,048</u>	

TOWN OF KERNERSVILLE, NORTH CAROLINA
CONTRIBUTIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

Schedule 7

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive</u> <u>(Negative)</u>
Revenues:				
Investment earnings			\$ 3	
Contributions and donations			5,003	
Total revenues	\$ 3,725	\$ 6,225	5,006	\$ (1,219)
Expenditures:				
Public safety			3,879	
Public service			385	
Total expenditures	6,500	9,000	4,264	4,736
Revenues over (under) expenditures	(2,775)	(2,775)	742	3,517
Appropriated fund balance	2,775	2,775	-	(2,775)
Revenues and appropriated fund balance over expenditures	<u>\$ -</u>	<u>\$ -</u>	742	<u>\$ 742</u>
Fund balance, beginning			84,329	
Fund balance, ending			<u>\$ 85,071</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, 2014**

Schedule 8

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
Revenues:				
Restricted intergovernmental			\$ 106,791	
Investment earnings			16	
Total revenues	75	104,974	106,807	1,833
Expenditures:				
Public safety			200,274	
Total expenditures	188,345	238,489	200,274	38,215
Revenues under expenditures	(188,270)	(133,515)	(93,467)	40,048
Other financing uses:				
Transfers out:				
General Fund	(5,000)	(5,000)	-	5,000
Revenues under expenditures and other uses	(193,270)	(138,515)	(93,467)	45,048
Appropriated fund balance	193,270	138,515	-	(138,515)
Revenues and appropriated fund balance under expenditures	<u>\$ -</u>	<u>\$ -</u>	(93,467)	<u>\$ (93,467)</u>
Fund balance, beginning			343,573	
Fund balance, ending			<u>\$ 250,106</u>	

**TOWN OF KERNERSVILLE, NORTH CAROLINA
 FEDERAL JUSTICE ASSISTANCE GRANT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 For the Year Ended June 30, 2014**

Schedule 9

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

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, 2014

	<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	\$ 27,082	\$ 52	\$ 27,134	\$ 58
Total revenues	<u>27,076</u>	<u>27,082</u>	<u>52</u>	<u>27,134</u>	<u>58</u>
Expenditures:					
Public service:					
Capital development					
Other operating expenditures	<u>449,057</u>	<u>443,768</u>	<u>-</u>	<u>443,768</u>	<u>5,289</u>
Total public service	<u>449,057</u>	<u>443,768</u>	<u>-</u>	<u>443,768</u>	<u>5,289</u>
Cultural and recreational:					
Capital development					
Capital outlay	<u>550,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>550,345</u>
Total cultural and recreational	<u>550,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>550,345</u>
Total expenditures	<u>999,402</u>	<u>443,768</u>	<u>-</u>	<u>443,768</u>	<u>555,634</u>
Revenues over (under) expenditures	<u>(972,326)</u>	<u>(416,686)</u>	<u>52</u>	<u>(416,634)</u>	<u>555,692</u>
Other financing sources:					
Transfers in:					
General Fund	567,326	567,326	-	567,326	-
Stormwater Fund	<u>405,000</u>	<u>405,000</u>	<u>-</u>	<u>405,000</u>	<u>-</u>
Total other financing sources	<u>972,326</u>	<u>972,326</u>	<u>-</u>	<u>972,326</u>	<u>-</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 555,640</u>	<u>52</u>	<u>\$ 555,692</u>	<u>\$ 555,692</u>
Fund balance, beginning			<u>555,640</u>		
Fund balance, ending			<u>\$ 555,692</u>		

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, 2014

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental	\$ 1,290,000	\$ -	\$ -	\$ -	\$ (1,290,000)
Investment earnings	-	102	13	115	115
Total revenues	<u>1,290,000</u>	<u>102</u>	<u>13</u>	<u>115</u>	<u>(1,289,885)</u>
Expenditures:					
Cultural and recreational:					
Other operating expenditures	145,900	105,485	24,504	129,989	15,911
Capital outlay	1,378,906	-	1,800	1,800	1,377,106
Total cultural and recreational	<u>1,524,806</u>	<u>105,485</u>	<u>26,304</u>	<u>131,789</u>	<u>1,393,017</u>
Total expenditures	<u>1,524,806</u>	<u>105,485</u>	<u>26,304</u>	<u>131,789</u>	<u>1,393,017</u>
Revenues under expenditures	<u>(234,806)</u>	<u>(105,383)</u>	<u>(26,291)</u>	<u>(131,674)</u>	<u>103,132</u>
Other financing sources (uses):					
Transfers in:					
General Fund	338,806	338,806	-	338,806	-
Transfers out:					
General Fund	<u>(104,000)</u>	<u>(69,334)</u>	<u>(34,666)</u>	<u>(104,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>234,806</u>	<u>269,472</u>	<u>(34,666)</u>	<u>234,806</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 164,089</u>	<u>(60,957)</u>	<u>\$ 103,132</u>	<u>\$ 103,132</u>
Fund balance, beginning			<u>164,089</u>		
Fund balance, ending			<u>\$ 103,132</u>		

**TOWN OF KERNERSVILLE, NORTH CAROLINA
 STORMWATER ENTERPRISE FUND
 SCHEDULE OF REVENUES AND EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2014**

Schedule 12

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services		\$ 1,013,509	
Investment earnings		90	
Total revenues	\$ 1,005,365	1,013,599	\$ 8,234
Expenditures:			
Personnel services		370,677	
Other operating expenditures		231,618	
Total expenditures	1,500,837	602,295	898,542
Revenues over (under) expenditures	(495,472)	411,304	906,776
Other financing sources (uses):			
Transfers in:			
General Fund	212,332	212,332	-
Transfers out:			
General Fund	(346,910)	(346,910)	-
Capital Reserve Fund	-	(524)	524
Total other financing uses	(135,626)	(135,102)	524
Revenues and other sources over (under) expenditures and other uses	(631,098)	276,202	907,300
Appropriated fund balance	631,098	-	(631,098)
Revenues and appropriated fund balance over expenditures and other uses	\$ -	276,202	\$ 276,202
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling item:			
Depreciation		(25,427)	
Change in net position		\$ 250,775	

**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, 2014**

Schedule 13

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 230,732	\$ 230,732	\$ -
Nonoperating revenues:			
Investment earnings	<u>100</u>	<u>20</u>	<u>(80)</u>
Total revenues	<u>230,832</u>	<u>230,752</u>	<u>(80)</u>
Expenditures:			
Claims paid		144,287	
Stop-loss coverage		53,592	
Administration		<u>9,400</u>	
Total expenditures	<u>230,832</u>	<u>207,279</u>	<u>23,553</u>
Revenues over expenditures	<u>\$ -</u>	23,473	<u>\$ 23,473</u>
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Addition to claims reserve		<u>(114,027)</u>	
Change in net position		<u>\$ (90,554)</u>	

SUPPLEMENTARY INFORMATION:

OTHER SCHEDULES

This section contains additional information on property taxes.

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

THIS PAGE LEFT INTENTIONALLY BLANK.

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2014

Schedule 14

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2013</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2014</u>
2013-14	\$ -	\$ 13,538,090	\$ 13,369,800	\$ 168,290
2012-13	225,912	-	157,562	68,350
2011-12	100,902	-	17,909	82,993
2010-11	85,690	-	12,138	73,552
2009-10	60,273	-	21,882	38,391
2008-09	30,674	-	302	30,372
2007-08	8,311	-	251	8,060
2006-07	7,016	-	111	6,905
2005-06	10,534	-	130	10,404
2004-05	8,497	-	9	8,488
2003-04	12,351	-	12,351	-
	<u>\$ 550,160</u>	<u>\$ 13,538,090</u>	<u>\$ 13,592,445</u>	495,805

Less allowance for uncollectible accounts:
 General Fund

(73,000)

\$ 422,805

Reconciliation of collections and credits with revenues:

Ad valorem taxes - General Fund	\$ 13,151,903
Vehicle fees - General Fund	63,319
Recycling revenue - General Fund	208,361
Refunds	(2,688)
Releases and other adjustments	159,199
Amounts written off for tax year 2003-2004 per statute of limitations	<u>12,351</u>
	<u>\$ 13,592,445</u>

TOWN OF KERNERSVILLE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2014

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	\$ 2,399,166,825	\$ 0.5275	\$ 12,655,605	\$ 11,682,577	\$ 973,028
Registered motor vehicles taxed at prior year's rate	143,824,523	0.4975	715,527	-	715,527
Penalties	-		24,174	24,174	-
Discoveries:					
Current year taxes	7,270,553	0.4975	36,171	36,171	-
Penalties	-		19,927	19,927	-
Total gross levy			13,451,404	11,762,849	1,688,555
Recycling fees	-		209,109	209,109	-
Vehicle tag fees	-		57,277	-	57,277
Total property valuation	<u>\$ 2,550,261,901</u>				
Total levy			13,717,790	11,971,958	1,745,832
Less releases			(179,700)	(169,931)	(9,769)
Net levy			13,538,090	11,802,027	1,736,063
Uncollected taxes at June 30, 2014			(168,290)	(162,353)	(5,937)
Current year's taxes collected			<u>\$ 13,369,800</u>	<u>\$ 11,639,674</u>	<u>\$ 1,730,126</u>
Current levy collection percentage			<u>98.76%</u>	<u>98.62%</u>	<u>99.66%</u>

SUPPLEMENTARY INFORMATION:
STATISTICAL SECTION

THIS PAGE LEFT INTENTIONALLY BLANK.

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.

CONTENTS

PAGE

FINANCIAL TRENDS INFORMATION - these schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time. **98**

REVENUE CAPACITY INFORMATION - these schedules contain information to help the reader assess the Town's most significant local revenue sources, property taxes and water and sewer charges. **103**

DEBT CAPACITY INFORMATION - these schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future. **108**

DEMOGRAPHIC AND ECONOMIC INFORMATION - these schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place. **112**

OPERATING INFORMATION - these schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs. **115**

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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities										
Net investment in capital assets	\$ 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	\$ 120,711,678
Restricted	-	-	-	-	-	-	1,687,385	2,450,611	1,618,871	2,053,262
Unrestricted	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	(551,541)
Total governmental activities net position	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	122,213,399
Business-type activities										
Net investment in capital assets	-	-	213,400	238,677	330,429	321,492	304,776	229,098	238,723	213,296
Unrestricted	-	-	158,751	546,588	494,794	435,601	503,485	749,343	901,352	1,177,554
Total business-type activities net position	-	-	372,151	785,265	825,223	757,093	808,261	978,441	1,140,075	1,390,850
Primary government										
Net investment in capital assets	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	120,924,974
Restricted	-	-	-	-	-	-	1,687,385	2,450,611	1,618,871	2,053,262
Unrestricted	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	626,013
Total primary government net position	\$ 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	\$ 123,604,249

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

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

Table 2
Page 1 of 2

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities:										
General government	\$ 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	\$ 3,494,897
Public safety	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	13,008,107
Public service	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	8,187,772
Cultural and recreation	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	1,603,499
Interest on long-term debt	472,930	707,314	691,913	620,311	584,278	494,302	448,776	396,651	377,849	354,509
Total governmental activities expenses	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	26,648,784
Business-type activities:										
Stormwater management	-	-	505,780	453,687	641,403	740,532	615,230	659,424	695,750	627,722
Total business-type activities	-	-	505,780	453,687	641,403	740,532	615,230	659,424	695,750	627,722
Total primary government expenses	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	27,276,506
Program Revenues										
Governmental activities:										
Charges for services:										
General government	214,377	189,589	318,664	110,324	236,157	190,051	238,988	251,053	335,490	435,885
Public safety	101,287	167,410	127,399	231,401	223,562	272,264	234,847	167,073	157,045	126,997
Public service	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	1,526,801
Cultural and recreation	164,897	245,795	168,752	290,617	243,012	259,428	284,283	267,114	282,126	308,777
Operating grants and contributions	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	2,324,088
Capital grants and contributions	5,143,230	6,872,024	4,328,734	7,891,645	1,857,585	429,109	2,145,173	248,058	162,253	3,070,242
Total governmental activities program revenues	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	7,792,790
Business-type activities:										
Charges for services:										
Capital grants and contributions	-	-	887,040	919,345	934,110	946,303	955,981	1,006,712	988,820	1,013,509
Total business-type activities program revenues	-	-	32,279	-	-	9,028	-	-	-	-
Total primary government program revenues	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	8,806,299

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

Table 2
Page 2 of 2

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General revenues and other changes in net position										
Governmental activities:										
Taxes										
Property taxes	\$ 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	\$ 13,097,529
Other taxes	526,137	607,479	917,167	339,268	228,614	229,200	232,061	246,837	247,477	218,755
Unrestricted intergovernmental revenue	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	6,036,044
Investments earnings, unrestricted	241,506	471,781	706,151	545,258	200,302	49,505	22,952	16,355	12,787	8,218
Transfers	-	-	58,311	68,847	263,845	283,845	290,330	177,330	131,789	135,102
Gain (loss) on disposal of capital assets	-	-	-	422,635	-	(23,524)	38,642	(1,581,296)	(115,866)	3,203
Capital contributions from developers	-	-	-	-	-	-	-	-	-	-
Donations of infrastructure	-	-	-	-	-	-	-	-	-	-
Miscellaneous	102,182	5,571	175,828	129,651	182,521	66,875	98,367	96,956	49,774	8,283
Total governmental activities	<u>15,474,952</u>	<u>17,130,174</u>	<u>18,748,699</u>	<u>20,260,237</u>	<u>19,255,821</u>	<u>19,156,986</u>	<u>19,493,587</u>	<u>17,853,107</u>	<u>19,404,535</u>	<u>19,507,134</u>
Business-type activities:										
Investments earnings, unrestricted	-	-	16,924	16,299	11,096	916	747	222	353	90
Transfers	-	-	(58,311)	(68,847)	(263,845)	(283,845)	(290,330)	(177,330)	(131,789)	(135,102)
Miscellaneous	-	-	-	4	-	-	-	-	-	-
Total business-type activities			<u>(41,387)</u>	<u>(52,544)</u>	<u>(252,749)</u>	<u>(282,929)</u>	<u>(289,583)</u>	<u>(177,108)</u>	<u>(131,436)</u>	<u>(135,012)</u>
Total primary government program revenues	<u>15,474,952</u>	<u>17,130,174</u>	<u>18,707,312</u>	<u>20,207,693</u>	<u>19,003,072</u>	<u>18,874,057</u>	<u>19,204,004</u>	<u>17,675,999</u>	<u>19,273,099</u>	<u>19,372,122</u>
Change in net position										
Governmental activities	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)	651,140
Business activities	-	-	372,152	413,114	39,958	(68,130)	51,168	170,180	161,634	250,775
Total primary government change in net position	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)	901,915
Net position - beginning	<u>112,989,359</u>	<u>114,058,142</u> *	<u>116,581,920</u>	<u>122,687,147</u>	<u>131,743,908</u>	<u>129,954,594</u>	<u>127,518,862</u>	<u>127,994,943</u>	<u>124,313,235</u>	<u>122,702,334</u>
Net position - ending	<u>\$ 114,058,142</u>	<u>\$ 116,581,920</u>	<u>\$ 122,687,147</u>	<u>\$ 131,743,908</u>	<u>\$ 129,954,594</u>	<u>\$ 127,518,862</u>	<u>\$ 127,994,943</u>	<u>\$ 124,313,235</u>	<u>\$ 122,702,334</u>	<u>\$ 123,604,249</u>

Notes: * Restated Net Position

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Fund										
Reserved	\$ 1,475,320	\$ 2,514,747	\$ 1,782,385	\$ 1,843,203	\$ 1,685,444	\$ 1,745,510	N/A	N/A	N/A	N/A
Unreserved	6,143,912	5,094,836	5,859,677	8,032,164	7,711,465	7,214,136	N/A	N/A	N/A	N/A
Non-spendable	N/A	N/A	N/A	N/A	N/A	N/A	\$ 22,917	\$ 14,490	\$ 16,479	\$ 222,957
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	1,588,285	2,939,846	2,171,712	2,043,075
Committed	N/A	N/A	N/A	N/A	N/A	N/A	147,933	625,097	1,120,723	821,040
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	302,337	500,654	397,654	226,126
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	7,034,981	5,619,305	7,733,398	7,178,931
Total general fund	<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>	<u>10,492,129</u>
All other governmental funds										
Reserved	200,877	628,635	36,154	38,724	219,342	144,729	N/A	N/A	N/A	N/A
Unreserved, reported in:										
Special revenue funds	426,552	1,540,238	1,067,588	666,922	639,156	342,578	N/A	N/A	N/A	N/A
Capital projects funds	2,432,540	2,677,188	3,811,937	4,222,041	2,723,237	2,190,716	N/A	N/A	N/A	N/A
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	429,216	200,460	258,598	362,304
Committed	N/A	N/A	N/A	N/A	N/A	N/A	1,766,051	798,805	719,729	658,824
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	119,429	338,229	277,892	-
Total all other governmental funds	<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>	<u>1,021,128</u>
Total fund balance	<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>	<u>\$ 11,513,257</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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenues by Source										
Ad valorem taxes	\$ 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	\$ 13,151,903
Other taxes and licenses	526,136	607,479	560,279	339,268	228,614	229,200	232,061	246,837	247,477	218,755
Unrestricted intergovernmental	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	6,036,044
Restricted intergovernmental	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	1,045,699
Penalties and interest	269,064	504,173	676,364	584,913	230,393	106,130	90,490	35,242	58,630	16,949
Contributions and donations	106,144	175,618	133,806	801,167	814,931	828,882	883,787	889,458	1,002,147	854,417
Other revenues	259,987	1,722,565	175,828	705,381	278,612	204,547	201,349	216,806	49,990	8,283
Functionally related revenues	<u>1,361,703</u>	<u>252,232</u>	<u>1,630,892</u>	<u>2,001,435</u>	<u>1,940,009</u>	<u>1,768,038</u>	<u>1,894,698</u>	<u>2,054,306</u>	<u>2,242,101</u>	<u>2,398,460</u>
Total revenues	<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>	<u>23,730,510</u>
Expenditures by Function										
General government	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	3,824,056
Public safety	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	12,547,679
Public service	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	6,638,214
Cultural and recreation	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	1,364,430
Debt service										
Principal retirement	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	1,753,280
Interest and fiscal charges	<u>461,589</u>	<u>664,668</u>	<u>691,913</u>	<u>731,654</u>	<u>593,917</u>	<u>530,396</u>	<u>458,547</u>	<u>401,301</u>	<u>367,301</u>	<u>345,661</u>
Total expenditures	<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>	<u>26,473,320</u>
Excess of revenue over (under) expenditures	<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>	<u>(2,742,810)</u>
Other Financing Sources (Uses)										
Proceeds from installment purchases	1,329,533	1,752,750	1,396,571	1,579,047	588,310	396,300	646,200	1,383,000	1,905,500	1,364,750
Proceeds from bonds	-	-	-	-	-	-	-	-	-	-
Proceeds from loans	2,935,022	-	-	-	-	-	-	-	-	-
Issuance of debt-loan	-	863,684	-	-	-	-	-	-	-	-
CCUC debt reimbursement	-	610,308	-	-	-	-	-	-	-	-
Prior escrow proceeds	-	438,718	-	-	-	-	-	-	-	-
Capital contributions from developers	-	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	107,250	60,030
Transfers in	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	768,594
Transfers out	<u>(2,002,508)</u>	<u>(2,627,078)</u>	<u>(2,181,921)</u>	<u>(1,937,387)</u>	<u>(1,591,551)</u>	<u>(2,026,790)</u>	<u>(2,024,876)</u>	<u>(1,946,554)</u>	<u>(378,581)</u>	<u>(633,492)</u>
Total other financing sources	<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>	<u>1,559,882</u>
Net change in fund balances	<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>	<u>\$ (1,182,928)</u>
Capital outlay included in total expenditures	<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>\$ 1,168,080</u>	<u>\$ 2,768,218</u>
Debt service as a percentage of noncapital expenditures	8.6%	11.9%	13.9%	14.3%	12.1%	12.2%	10.8%	9.5%	8.7%	8.9%

Source: Exhibit 4 in Basic Financial Statements

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

Table 5

Fiscal Year	Property Tax
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
2014	13,151,903
Change from 2005 to 2014	40.0%

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 98.76%.

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

Table 6

Fiscal Year	Town Direct Rates			Forsyth County ^b	Guilford County ^b
	Basic Rate	General Obligation Streets Debt Service ^a	Total Direct		
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
2014	0.4775	0.05	0.5275	0.6787	0.7700

Source: Forsyth County Tax Office and Guilford County Tax Office

Note: As approved by the citizens of Kernersville in the Bond Referendum held in the November General Election of 1998, the Town 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.

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

^b 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

<u>Taxpayer</u>	<u>2014</u>			<u>2005</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Deere-Hitachi Mfg. Corp.	\$ 58,369,770	1	2.29%	19,816,952	3	1.12%
Pope Companies, Inc.	54,264,220	2	2.13%	41,426,667	1	2.34%
DIS Kernersville, LLC	21,567,260	3	0.85%	21,076,762	2	1.19%
Grass America, Inc.	21,388,970	4	0.84%	15,639,429	5	0.89%
Boma North Carolina, LLC	21,338,100	5	0.84%	-	-	-
Wal-Mart Real Estate Bus. Trst	20,674,100	6	0.81%	15,815,238	4	0.90%
Lowes Home Centers Inc	16,133,380	7	0.63%	-	-	-
Duke Energy Corp	16,032,640	8	0.63%	11,328,952	9	0.64%
Foster Apartment Group, LLC	14,362,100	9	0.56%	13,892,000	6	0.79%
Roadway Express, Inc.	14,044,200	10	0.55%	12,832,380	8	0.73%
Sepia, Inc. d/b/a Dudley Products	-		-	13,047,238	7	0.74%
	<u>\$ 258,174,740</u>		<u>10.12%</u>	<u>\$ 164,875,618</u>		<u>9.33%</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
2005	\$ 9,746,677	\$ 9,557,501	98.06%	\$ 180,688	\$ 9,738,189	99.91%
2006	10,881,856	10,694,040	98.27%	177,412	10,871,452	99.90%
2007	11,875,246	11,699,663	98.52%	168,678	11,868,341	99.94%
2008	12,486,971	12,292,288	98.44%	186,623	12,478,911	99.94%
2009	12,901,217	12,666,973	98.18%	203,872	12,870,845	99.76%
2010	13,044,986	12,748,806	97.73%	257,789	13,006,595	99.71%
2011	13,216,546	12,881,345	97.46%	261,649	13,142,994	99.44%
2012	13,048,827	12,755,708	97.75%	210,126	12,965,834	99.36%
2013	13,178,975	12,953,063	98.29%	157,562	13,110,625	99.48%
2014	13,538,090	13,369,800	98.76%	-	13,369,800	98.76%

Sources: Forsyth County and Guilford County Tax Offices

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

Table 9

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Public Service Companies Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Actual Taxable Value	Assessed Value as a Percentage of Actual Value
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%
2014	1,245,558,247	542,639,948	83,699,860	38,060,695	32,354,749	1,877,604,001	0.5275	2,550,261,901	73.62%

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 ^a
	General Obligation Bonds	State Revolving Loan	Installment Purchases	Installment Purchases			
2005	\$ 6,900,000	\$ 7,136,316	\$ 4,767,698	\$ -	\$ 18,804,014	172.87%	\$ 774
2006	6,800,000	7,600,000	5,016,524	-	19,416,524	172.01%	905
2007	6,700,000	7,200,000	4,713,122	43,398	18,656,520	156.87%	913
2008	6,350,000	6,800,000	4,533,147	6,818	17,689,965	139.34%	861
2009	6,000,000	6,400,000	3,468,391	147,111	16,015,502	120.97%	806
2010	5,600,000	6,000,000	2,315,253	109,410	14,024,663	n/a	716
2011	5,200,000	5,600,000	1,708,517	74,079	12,582,596	n/a	610
2012	4,800,000	5,200,000	2,026,270	37,621	12,063,891	n/a	507
2013	4,400,000	4,800,000	3,028,744	-	12,228,744	n/a	513
2014	4,000,000	4,400,000	3,440,214	-	11,840,214	n/a	494

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

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

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

Table 11

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Total</u>	<u>Percentage of G.O. Debt to Actual Taxable Value of Property ^a</u>	<u>Per Capita ^b</u>
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
2014	4,000,000	4,000,000	0.1568%	166.49

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

^a See Table 5 for property value data.

^b Population data can be found in Table 14.

TOWN OF KERNERSVILLE, NORTH CAROLINA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of June 30, 2014

Table 12

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable^{a & b}</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Forsyth County's general obligation debt	\$ 544,704,357	7.394%	\$ 40,275,440
Town of Kernersville's direct debt			<u>11,840,214</u>
Total direct and overlapping debt			<u><u>\$ 52,115,654</u></u>

^a Source: Forsyth County

^b For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value with is within the County's boundaries and dividing it by each unit's total taxable assessed value. This approach was also used for the Town of Kernersville's other debt.

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

Table 13

Legal Debt Margin Calculation for Fiscal Year 2014

Assessed value	\$ 2,550,261,901
Debt limit (8% of assessed value)	204,020,952
Debt applicable to limit:	
General obligation bonds	4,000,000
Revolving loan payable	4,400,000
Installment purchases	3,440,214
Total net debt applicable to limit	11,840,214
Legal debt margin	\$ 192,180,738

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt limit	\$ 145,955,652	\$ 163,265,539	\$ 170,194,976	\$ 178,245,289	\$ 183,841,120	\$ 209,725,569	\$ 208,744,800	\$ 205,711,587	\$ 208,032,177	\$ 204,020,952
Total net debt applicable to limit	15,856,583	18,804,014	19,416,524	18,656,520	17,689,965	16,015,502	14,024,663	12,063,891	12,228,744	11,840,214
Legal debt margin	\$ 130,099,069	\$ 144,461,525	\$ 150,778,452	\$ 159,588,769	\$ 166,151,155	\$ 193,710,067	\$ 194,720,137	\$ 193,647,696	\$ 195,803,433	\$ 192,180,738

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

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

Table 14

Calendar Year	Population ¹	Forsyth County Personal Income ¹	Per Capita Personal Income ¹	Median Age ¹	School Enrollment ²	Unemployment Rate ³
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	14,176,253	39,583	37.4	7,746	9.5%
2014	24,025	N/A	N/A	37.5	7,578	7.5%

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.

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

² Winston-Salem/Forsyth County School System.

³ Employment Security Commission; Forsyth County rates were used.

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

Table 15

Employer	2014 ¹			2005 ²		
	Number of Employees	Rank	Percentage of Total County Employment	Number of Employees	Rank	Percentage of Total County Employment
Wake Forest University Baptist Medical Center	13,398	1	8.0%	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	7,600	3	4.6%	7,020	2	4.4%
Wells Fargo Bank ^a	2,800	4	1.7%	5,930	5	3.8%
City of Winston-Salem	2,660	5	1.6%	3,400	6	2.2%
Reynolds American ^b	2,500	6	1.5%	2,600	7	1.6%
Wake Forest University	2,401	7	1.4%	6,000	4	3.8%
Hanesbrands, Inc. ^c	2,230	8	1.3%	N/A		-
BB&T Corporation	2,200	9	1.3%	1,859	9	1.2%
Forsyth County	2,029	10	1.2%	1,581	10	1.0%
US Airways	N/A		-	1,885	8	1.2%
Total	45,963		27.5%	48,396		30.6%

¹ estimates as of July 2014

² estimates as of June 2005

^a formerly Wachovia Corporation

^b formerly R.J. Reynolds Tobacco Company

^c formerly Sara Lee Personal Products

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

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

Table 16

<u>Function/Program</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General government										
Governing body	6	6	6	6	6	6	6	6	6	6
Administration Department	2	3	4	4	3	3	3	3	3	3
Finance	4	4	4	5	5	5	5	6	6	7
Information Technology	1	1	2	2	3	3	3	3	3	3
Planning & Zoning	5	4	4	4	4	4	4	4	4	4
Inspections	5	7	6	6	6	6	6	5	5	6
Personnel	4	3	3	3	3	3	4	4	4	5
General Services	3	4	3	3	3	3	2	3	3	3
Police										
Officers	62	66	66	68	66	68	68	63	65	67
Civilians	15	18	15	16	19	15	15	20	20	20
Fire										
Firefighters and officers	65	65	67	62	67	68	68	68	70	73
Civilians	1	1	1	1	1	1	1	1	1	1
Public Service										
Engineering	3	2	3	3	3	3	3	2	2	2
Street	15	16	16	15	17	17	17	19	20	17
Sanitation	15	23	25	25	23	23	25	22	22	22
Transportation	-	-	-	-	6	6	6	4	3	2
Public Works Administration	9	9	11	11	6	5	4	4	3	5
Central Maintenance	6	7	7	7	8	7	9	8	9	9
Stormwater Enterprise	-	-	6	6	5	5	5	5	5	5
Cultural & Recreation										
Recreation	9	9	17	17	9	8	8	8	10	9
Total	<u>230</u>	<u>248</u>	<u>266</u>	<u>264</u>	<u>263</u>	<u>259</u>	<u>262</u>	<u>258</u>	<u>264</u>	<u>269</u>

Source: Town's Payroll Department

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

Table 17

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police										
Physical arrests	2,849	3,078	2,479	2,744	2,901	850	851	1,077	1,887	1,495
Parking violations	127	154	571	602	373	301	180	170	160	59
Traffic violations	4,224	4,122	3,818	3,514	1,300	3,148	3,211	4,859	4,658	3,735
Fire										
Emergency responses	2,054	1,889	2,378	2,489	2,489	2,587	2,740	2,642	2,798	3,018
Fires extinguished	100	95	99	180	180	124	123	83	108	215
Inspections	370	476	902	1,179	1,179	1,088	1,284	1,872	1,755	1,225
Refuse collection										
Refuse collected (tons per year)	15,118	14,084	15,209	13,962	13,248	13,384	13,283	13,152	12,990	13,408
Recyclables collected (tons per year)	3,025	3,956	4,078	3,483	4,311	4,277	5,878	4,502	4,291	2,123
Other public works										
Street resurfacing (miles)	1.6	1.6	2.5	3.1	1.8	1.6	3.3	-	2.2	3.1
Potholes repaired (square yards)	6,277	6,585	1,797	1,444	1,654	1,512	1,115	2,969	1,393	1,792
Parks and recreation										
Athletic field permits issued	31	29	32	32	32	32	32	32	37	32

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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Policemen and officers	62	66	66	67	67	68	68	68	68	67
Annual police calls to which responded	32,646	34,507	34,831	36,407	41,136	34,676	37,836	41,880	39,421	36,724
Annual traffic accidents	1,313	1,270	1,447	1,403	1,300	1,242	1,357	1,346	1,309	1,345
Annual number of arrests (18 years and over)	2,463	3,078	2,479	1,744	2,901	1,271	1,202	2,575	1,324	1,170
Fire										
Stations	4	4	4	4	4	4	4	4	4	4
Firemen and officers	65	65	67	65	68	68	68	68	68	70
Annual fire calls	2,003	1,889	2,378	2,489	2,532	2,587	2,740	2,642	2,798	3,018
Building permits issued	348	369	349	321	253	215	173	144	237	256
Value of building permits issued	\$ 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	\$ 135,649,973
Public services										
Streets (miles)	89.884	90.780	91.800	94.272	94.590	94.696	95.288	94.567	94.480	94.868
Streetlights	2,797	2,871	2,885	2,931	3,042	3,098	3,100	3,100	3,106	3,192
Traffic signals	30	30	38	38	28	28	28	28	28	33
Parks and recreation										
Parks	6	6	7	7	7	7	7	7	7	9
Total acreage of parks	277	277	289	294	294	294	294	294	294	327
Lighted tennis courts	6	6	6	6	6	6	6	6	6	6
Recreation centers	1	1	1	1	1	1	1	1	1	1
Baseball/softball diamonds	3	3	3	3	3	3	3	3	3	3
Soccer fields	5	5	5	5	5	5	5	5	5	11
Fishing and boating lakes										
Owned and operated by the Town	1	1	2	2	2	2	2	2	2	2
Owned and operated by Forsyth County	1	1	1	1	1	1	1	1	1	1

Sources: Various Town Departments

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

SUPPLEMENTARY INFORMATION:
COMPLIANCE SECTION

THIS PAGE LEFT INTENTIONALLY BLANK.



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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

INDEPENDENT AUDITORS' REPORT

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kernersville, North Carolina, as of and for the year ended June 30, 2014, 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 17, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

*High Point, North Carolina
December 17, 2014*



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

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for the Major Federal Program

We have audited the Town of Kernersville, North Carolina's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on the Town of Kernersville's major federal program for the year ended June 30, 2014. The Town of Kernersville's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of the Town of Kernersville's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Kernersville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Town of Kernersville's compliance.

Opinion on the Major Federal Program

In our opinion, the Town of Kernersville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Town of Kernersville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Town of Kernersville's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance for the major federal program, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

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

Dixon Hughes Goodman LLP

*High Point, North Carolina
December 17, 2014*



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

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for the Major 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, 2014. 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, 2014.

Report on Internal Control over Compliance

Management of the Town of Kernersville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Town of Kernersville's internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Kernersville's internal control over compliance.

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

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

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

Dixon Hughes Goodman LLP

*High Point, North Carolina
December 17, 2014*

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major federal programs:

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

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

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

Identification of major federal program(s):

CFDA 20.205 - Surface Transportation Program - Piney Grove Widening

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

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

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

Schedule 19
Page 2 of 2

I. Summary of Auditors' Results (Continued)

State Awards

Internal control over major state programs:

- Material weaknesses identified? _____ Yes X No

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

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

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

Identification of major state program(s):
 Powell Bill

II. Financial Statement Findings

There were no findings related to the financial statements for the fiscal year ended June 30, 2014.

III. Federal Awards Findings and Questioned Costs

There were no findings related to federal awards for the fiscal year ended June 30, 2014.

IV. State Awards Findings and Questioned Costs

There were no findings related to state awards for the fiscal year ended June 30, 2014.

TOWN OF KERNERSVILLE, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2014

Schedule 20

There were no prior year audit findings.

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2014

Schedule 21

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal (Direct and Pass-through) Expenditures</u>	<u>State Expenditures</u>
Federal grants:				
<u>U.S. Department of Justice</u>				
Direct Programs				
Bullet-Proof Vest Partnership	16.607		\$ 1,349	
Federal Asset Forfeiture Funds	16.000	NC0-340100	50,780	
Organized Crime Drug Enforcement Task Forces	16.000	50CD04984	4,669	
Gang Resistance Education and Training - GREAT	16.737		1,198	
Passed through the N.C. Department of Public Safety Governor's Crime Commission				
Non-Lethal Weapon Project 2013	16.738	201-DJ-BX-0640	9,570	
Total U.S. Department of Justice			67,566	
<u>U.S. Department of Homeland Security</u>				
Direct Programs				
Immigration and Customs Enforcement - ICE				1,061
Total U.S. Department of Homeland Security				1,061
<u>U.S. Department of Transportation</u>				
Passed through the N.C. Department of Transportation Governor's Highway Safety Program				
Operation Slow Down (Radar Equipment)	20.205	WBS 52014.5.57	15,278	
Surface Transportation Program				
Piney Grove Road Widening	20.205	WBS 45539.3.1	748,589	
Total U.S. Department of Transportation			763,867	
Total assistance - Federal programs			832,494	
State grants:				
<u>N.C. Department of Justice</u>				
Direct Programs				
State Asset Forfeiture Funds				\$ 6,840
Total N.C. Department of Justice				6,840
<u>N.C. Department of Transportation</u>				
Direct Programs				
Powell Bill				642,857
Total N.C. Department of Transportation				642,857
<u>N.C. Department of Environmental & Natural Resources</u>				
Direct Programs				
Environmental Assistance and Outreach 2013				
Community Waste Reduction & Recycling		5351		32,500
Total N.C. Department of Environmental and Natural Resources				32,500
Total assistance - State programs				682,197
Total assistance			\$ 832,494	\$ 682,197

TOWN OF KERNERSVILLE, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2014

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.