

**CITY OF KINGS MOUNTAIN
NORTH CAROLINA**

ANNUAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2016

Mayor

Scott Neisler

City Council

Mike Butler

Rodney L. Gordon

Tommy Hawkins

Keith Miller

Curtis Pressley

Jay Rhodes

Howard Shipp

City Manager

Marilyn H. Sellers

Finance Officer

Chris Costner

This page left blank intentionally.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ANNUAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Independent Auditor's Report	1-3
	Management's Discussion and Analysis	4-13
	Basic Financial Statements:	
	Government-Wide Financial Statements:	
A	Statement of Net Position	14
B	Statement of Activities	15-16
	Fund Financial Statements:	
C	Balance Sheet - Governmental Funds	17
D	Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
E	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	19
F	General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	20
G	Statement of Fund Net Position - Proprietary Funds	21
H	Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	22
I	Statement of Cash Flows - Proprietary Funds	23
J	Statement of Fiduciary Net Position - Fiduciary Funds	24
	Notes to the Financial Statements	25-62

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ANNUAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Required Supplemental Financial Data:	
A-1	Law Enforcement Officers' Special Separation Allowance - Required Supplementary Information	63
A-2	Other Post-Employment Benefits - Retiree Health Plan Required Supplementary Information -	64
A-3	Local Government Employees' Retirement System City's Proportionate Share of Net Pension Liability (Asset) - Required Supplementary Information	65
A-4	Local Government Employees' Retirement System City's Contributions - Required Supplementary Information	66
	Supplementary Information:	
	General Fund -	
1	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	67-72
	Nonmajor Governmental Funds:	
2	Combining Balance Sheet	73
3	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	74
4	Special Revenue Fund: Emergency Telephone System Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	75
	Capital Projects Funds:	
5	General Capital Projects Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	76
6	Senior Center Capital Project Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	77

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ANNUAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Permanent Fund:	
7	Cemetery Care Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	78
	Enterprise Funds:	
8	Water and Sewer Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	79-80
9	Enterprise Fund Capital Project - Water Plant Upgrade and Line Rehab Project Schedule of Revenues, Expenditures, and Changes - Budget and Actual (Non-GAAP)	81
10	Electric Utility Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	82-83
11	Gas Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	84-85
12	Stormwater Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	86
	Internal Service Funds:	
13	Combining Statement of Net Position	87
14	Combining Statement of Revenues, Expenses, and Changes in Net Position	88
15	Combining Statement of Cash Flows	89
16	Workers' Compensation Insurance - Schedule of Revenues and Expenditures - Financial Plan and Actual (Non-GAAP)	90

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ANNUAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Internal Service Funds (continued):	
17	Health Insurance - Schedule of Revenues and Expenditures - Financial Plan and Actual (Non-GAAP)	91
	Tourism Development Authority:	
18	Tourism Development Authority Board - Statement of Net Position	92
19	Tourism Development Authority Board - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	93
	Agency Fund:	
20	Statement of Changes in Assets and Liabilities	94
	Additional Financial Data:	
21	Schedule of Ad Valorem Taxes Receivable	95
22	Analysis of Current Year Levy	96
	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>	97-98
	Report On Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; In Accordance With OMB Uniform Guidance; And the State Single Audit Implementation Act	99-100
	Schedule of Findings and Questioned Costs	101-104
	Corrective Action Plan	105-106
	Schedule of Prior Year Audit Findings	107
	Schedule of Expenditures of Federal and State Awards	108-109

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kings Mountain, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City'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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Kings Mountain ABC Board, which represents 79 percent, 73 percent, and 93 percent, respectively, of the assets, net position, and revenues of the discretely presented units. Those financial statements were audited by another auditor, whose report has been furnished to us and, our opinion, insofar as it relates to the amounts included for the City of Kings Mountain ABC Board, is based solely on the report of another auditor. 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 basic financial statements are free from material misstatement. The financial statements of the City of Kings Mountain ABC Board were not audited in accordance with *Government Auditing Standards*.

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

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, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kings Mountain, North Carolina, as of June 30, 2016, 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 accordance 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 the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance and the Other Post-Employment Benefits' Schedules of Funding Progress, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditor 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 City of Kings Mountain's basic financial statements. The combining and individual fund financial statements, budget and actual schedules, other schedules, and supplemental ad valorem tax schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budget and actual schedules, other schedules, supplemental ad valorem tax schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other

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 by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual fund financial statements, budget and actual schedules, other schedules, supplemental ad valorem tax schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016 on our consideration of the City of Kings Mountain's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Kings Mountain's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 11, 2016

This page left blank intentionally.

Management's Discussion and Analysis

As management of the City of Kings Mountain, we offer readers of the City of Kings Mountain's financial statements this narrative overview and analysis of the financial activities of the City of Kings Mountain for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here, in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

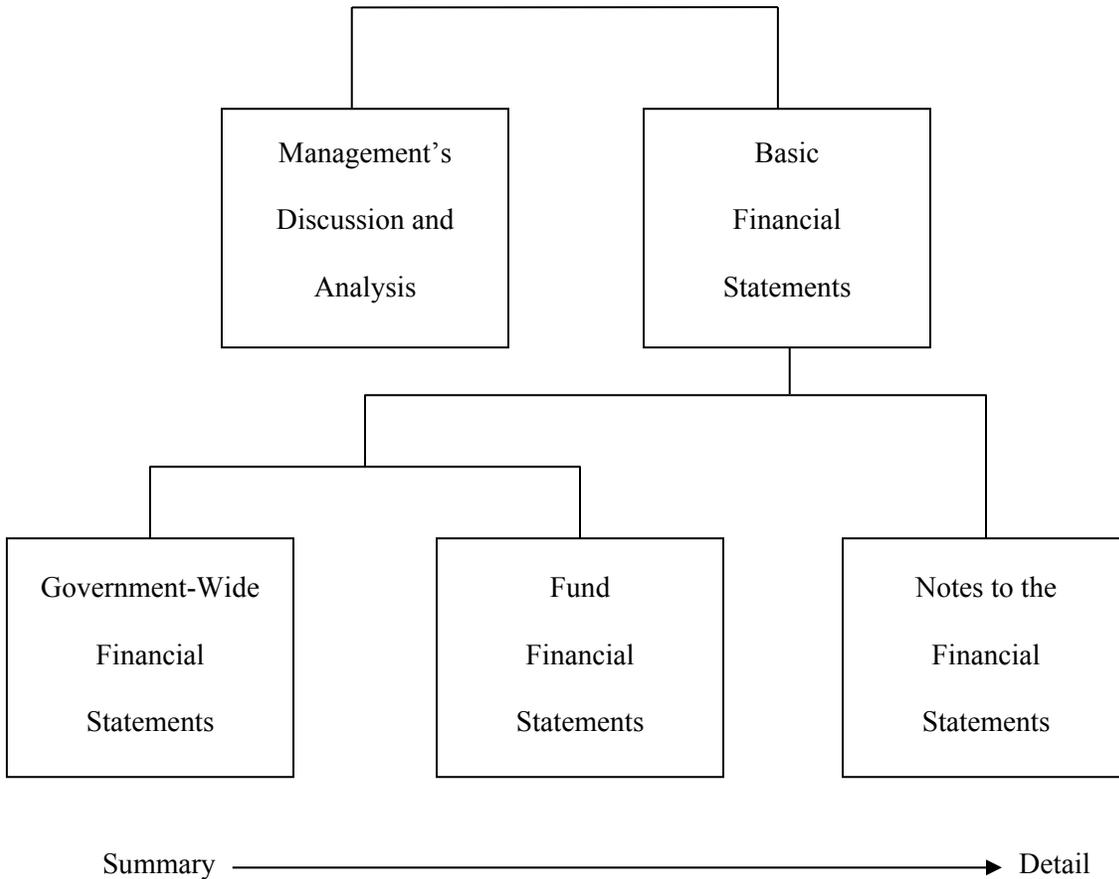
- The assets and deferred outflows of resources of the City of Kings Mountain exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$50,689,584 (*net position*).
- The government's total net position increased by \$3,263,661.
- As of the close of the current fiscal year, the City of Kings Mountain's governmental funds reported combined ending fund balances of \$4,944,853, an increase of \$788,614 in comparison with the prior year. Approximately 40.47% of this amount, or \$2,001,000, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,696,265, or 21.77 percent, of total General Fund expenditures for the fiscal year.
- The City of Kings Mountain's total debt increased by \$12,070,784 during the current fiscal year. The key factor in this increase was the issuance of debt in the Water and Sewer Fund for the Water Plant Upgrade and Line Rehab Project.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Kings Mountain's basic financial statements. The City'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 City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Kings Mountain.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **government-wide financial statements**. They provide both short and long-term information about the City's financial status.

The next statements (Exhibits C through J) are **fund financial statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are four parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, 3) the proprietary fund statements, and 4) the fiduciary 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 City's individual funds. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City'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 City's financial status as a whole.

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

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the City's basic services such as public safety, transportation, and general administration. Property taxes and federal and State grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer services, electric, and gas services offered by the City of Kings Mountain. The final category is the component units. Although legally separate from the City, the ABC Board is important to the City because the City exercises control over the Board by appointing its members and the Board is required to distribute its profits to the City. In addition, the Tourism Development Authority Board's governing board is appointed by the City.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the City'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 City of Kings Mountain, 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 City's budget ordinance. All of the funds of the City of Kings Mountain can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in 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 City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

Proprietary Funds. The City of Kings Mountain has two different kinds of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Kings Mountain uses enterprise funds to account for its water and sewer activity, for its electric operations, and its gas operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the functions of the City of Kings Mountain. The City uses an internal service fund to account for two activities – its workers’ compensation insurance program and health insurance program. Because these programs benefit predominately governmental rather than business-type activities, the Internal Service Fund has been included within the governmental activities in the government-wide financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. City of Kings Mountain has one fiduciary fund, which is an agency fund.

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 follow Exhibit J of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Kings Mountain’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found following the notes to the financial statements.

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

Government-Wide Financial Analysis

City of Kings Mountain's Net Position Figure 2

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Assets:						
Current assets	\$ 6,075,522	\$ 5,539,880	\$ 11,806,493	\$ 11,051,489	\$ 17,882,015	\$ 16,591,369
Other assets	251,272	207,640	604,236	295,980	855,508	503,620
Capital assets, net	<u>9,821,431</u>	<u>10,160,569</u>	<u>60,403,686</u>	<u>48,938,845</u>	<u>70,225,117</u>	<u>59,099,414</u>
Total assets	<u>16,148,225</u>	<u>15,908,089</u>	<u>72,814,415</u>	<u>60,286,314</u>	<u>88,962,640</u>	<u>76,194,403</u>
Deferred Outflows of Resources	<u>398,917</u>	<u>383,912</u>	<u>171,276</u>	<u>164,535</u>	<u>570,193</u>	<u>548,447</u>
Liabilities:						
Long-term liabilities	5,546,799	4,798,236	30,307,912	17,880,833	35,854,711	22,679,069
Other liabilities	<u>918,765</u>	<u>826,007</u>	<u>1,791,352</u>	<u>4,181,172</u>	<u>2,710,117</u>	<u>5,007,179</u>
Total liabilities	<u>6,465,564</u>	<u>5,624,243</u>	<u>32,099,264</u>	<u>22,062,005</u>	<u>38,564,828</u>	<u>27,686,248</u>
Deferred Inflows of Resources	<u>208,418</u>	<u>1,141,476</u>	<u>70,003</u>	<u>489,203</u>	<u>278,421</u>	<u>1,630,679</u>
Net Position:						
Net investment in capital assets	8,029,194	8,335,419	31,888,274	32,253,694	39,917,468	40,589,113
Restricted	1,917,852	2,169,090	-	-	1,917,852	2,169,090
Unrestricted	<u>(73,886)</u>	<u>(978,227)</u>	<u>8,928,150</u>	<u>5,645,947</u>	<u>8,854,264</u>	<u>4,667,720</u>
Total net position	<u>\$ 9,873,160</u>	<u>\$ 9,526,282</u>	<u>\$ 40,816,424</u>	<u>\$ 37,899,641</u>	<u>\$ 50,689,584</u>	<u>\$ 47,425,923</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Kings Mountain exceeded liabilities and deferred inflows by \$50,689,584 as of June 30, 2016. However, the largest portion (79%) reflects the City's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The City of Kings Mountain uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Kings Mountain's net investment in 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 City of Kings Mountain's net position of \$1,917,852, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,854,264 is unrestricted.

City of Kings Mountain's Changes in Net Position
Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,455,416	\$ 1,443,293	\$ 23,681,473	\$ 22,936,300	\$ 25,136,889	\$ 24,379,593
Operating grants and contributions	1,079,018	1,577,783	837	-	1,079,855	1,577,783
Capital grants and contributions	96,107	145,406	-	32,010	96,107	177,416
General revenues:						
Property taxes	4,675,258	4,428,398	-	-	4,675,258	4,428,398
Other taxes	3,057,260	2,715,692	-	-	3,057,260	2,715,692
Other	9,045	11,237	35,753	16,618	44,798	27,855
Total revenues	<u>10,372,104</u>	<u>10,321,809</u>	<u>23,718,063</u>	<u>22,984,928</u>	<u>34,090,167</u>	<u>33,306,737</u>
Expenses:						
General government	2,403,680	2,210,992	-	-	2,403,680	2,210,992
Public safety	4,597,688	4,067,170	-	-	4,597,688	4,067,170
Transportation	1,631,733	1,657,647	-	-	1,631,733	1,657,647
Environmental protection	1,163,304	102,901	-	-	1,163,304	102,901
Economic development	812,052	3,010,128	-	-	812,052	3,010,128
Culture and recreation	1,861,877	1,612,581	-	-	1,861,877	1,612,581
Human services	-	146,594	-	-	-	146,594
Interest expense	35,892	40,895	-	-	35,892	40,895
Water and sewer	-	-	5,040,253	4,649,321	5,040,253	4,649,321
Electric	-	-	9,194,827	9,899,063	9,194,827	9,899,063
Gas	-	-	3,673,970	4,589,574	3,673,970	4,589,574
Stormwater	-	-	411,230	317,564	411,230	317,564
Total expenses	<u>12,506,226</u>	<u>12,848,908</u>	<u>18,320,280</u>	<u>19,455,522</u>	<u>30,826,506</u>	<u>32,304,430</u>
Change in net position before transfers	(2,134,122)	(2,527,099)	5,397,783	3,529,406	3,263,661	1,002,307
Transfers	<u>2,481,000</u>	<u>2,354,000</u>	<u>(2,481,000)</u>	<u>(2,354,000)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>346,878</u>	<u>(173,099)</u>	<u>2,916,783</u>	<u>1,175,406</u>	<u>3,263,661</u>	<u>1,002,307</u>
Net Position:						
Beginning of year - July 1	9,526,282	10,295,056	37,899,641	36,979,524	47,425,923	47,274,580
Prior period adjustment	-	(595,675)	-	(255,289)	-	(850,964)
Beginning of year, restated	<u>9,526,282</u>	<u>9,699,381</u>	<u>37,899,641</u>	<u>36,724,235</u>	<u>47,425,923</u>	<u>46,423,616</u>
End of year - June 30	<u>\$ 9,873,160</u>	<u>\$ 9,526,282</u>	<u>\$ 40,816,424</u>	<u>\$ 37,899,641</u>	<u>\$ 50,689,584</u>	<u>\$ 47,425,923</u>

Governmental Activities. Governmental activities increased the City's net position by \$346,878. The key elements of this increase are as follows:

- Increase in other tax revenues such as local option sales taxes
- Decrease in economic and physical development expenditures of \$2,198,076

Business-Type Activities. Business-type activities increased the City's net position by \$2,916,783. Key elements of this increase are as follows:

- Increase in operating revenues
- Decrease in electric expenses overall from a decrease in electrical power purchases
- Decrease in gas expenses overall from a decrease in gas purchases

Financial Analysis of the City's Funds

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

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

The General Fund is the chief operating fund of the City of Kings Mountain. At the end of the current fiscal year, available fund balance of the General Fund was \$3,106,479, while total fund balance reached \$4,133,049. As a measure of the General Fund's liquidity, it may be useful to compare both available fund balance and total fund balance to total fund expenditures. Available fund balance represents 25.43 percent of total General Fund expenditures, while total fund balance represents 33.84 percent of that same amount.

At June 30, 2016, the governmental funds of the City of Kings Mountain reported a combined fund balance of \$4,944,853 with a net increase of \$788,614. Included in this change in fund balance is an increase in fund balance in the General Fund and the Emergency Telephone System Fund (nonmajor fund).

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

The original budget was amended to account for additional revenues and expenditures that occurred during the fiscal year. Total net amendments to the General Fund's expenditures was \$819,561. With respect to actual versus final amended budget, revenues had a positive variance of \$502,761 due to an increase in property tax and other tax revenues. The expenditures recognized a positive variance of \$1,159,295. The major components of this positive variance are as follows:

- Economic and physical development - \$625,896
- Public safety - \$217,705
- Transportation - \$121,765

Proprietary Funds. The City of Kings Mountain’s proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$3,263,044. The amount of unrestricted net position for the Electric Fund was \$4,504,560, for the Gas Fund was \$1,014,331, and for the Stormwater Fund was \$146,215. The total changes in net position for the four funds were \$995,775, \$1,573,283, \$262,283, and \$85,442, respectively.

Capital Asset and Debt Administration

Capital Assets. The City of Kings Mountain’s investment in capital assets for its governmental and business–type activities as of June 30, 2016 totals \$70,225,117 (net of accumulated depreciation). These assets include buildings, land, infrastructure, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include:

- Vehicles, machinery, and equipment in different departments, including a line truck in the Electric Fund and a John Deere Trackhoe, rescue truck, and freightliner in the General Fund
- Construction in progress in the Gas and Water and Sewer Funds
- Land

**City of Kings Mountain’s Capital Assets
(net of depreciation)
Figure 4**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 2,705,198	\$ 2,687,226	\$ 7,244,945	\$ 7,115,023	\$ 9,950,143	\$ 9,802,249
Infrastructure	454,474	542,383	-	-	454,474	542,383
Buildings	2,050,010	2,395,257	3,682,805	4,022,161	5,732,815	6,417,418
Other improvements	730,708	775,228	6,088,227	6,558,260	6,818,935	7,333,488
Equipment	1,409,977	1,475,499	4,720,525	4,764,478	6,130,502	6,239,977
Vehicles	1,357,752	1,266,761	986,242	941,915	2,343,994	2,208,676
Lines	-	-	15,726,715	16,302,568	15,726,715	16,302,568
Construction in progress	1,113,312	1,018,215	21,954,227	9,234,440	23,067,539	10,252,655
Total	<u>\$ 9,821,431</u>	<u>\$ 10,160,569</u>	<u>\$ 60,403,686</u>	<u>\$ 48,938,845</u>	<u>\$ 70,225,117</u>	<u>\$ 59,099,414</u>

Additional information on the City’s capital assets can be found in Note 3 of the basic financial statements.

Long-Term Debt. As of June 30, 2016, the City of Kings Mountain had total installment purchase debt outstanding of \$30,581,085. The City’s debt represents obligations secured solely by certain equipment of the City.

City of Kings Mountain’s Outstanding Debt

Figure 5

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Installment purchases	<u>\$ 1,792,237</u>	<u>\$ 1,825,150</u>	<u>\$ 28,788,848</u>	<u>\$ 16,685,151</u>	<u>\$ 30,581,085</u>	<u>\$ 18,510,301</u>

The City of Kings Mountain's total debt increased by \$12,070,784 during the current fiscal year. The key factor in this increase was the issuance of debt in the Water and Sewer Fund for the ongoing capital project.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Kings Mountain is approximately \$62,507,000.

Additional information regarding the City of Kings Mountain's long-term debt can be found in Note 3 of this audited financial report.

Economic Factors and Next Year's Budgets and Rates

The City completed the third and final year of 7 ½% increase to the water and sewer rate as recommended by the rate study completed in 2012 to fund payments for the water system improvements which the City received a \$33.8 million dollar interest free loan from NC Department of Natural Resources. The projects are: Water Treatment Plant rehabilitation and expansion from 8-12 million gallons per day to be completed by January, 2017 (\$13.4 million); City water line rehab is complete (\$5.2 million); and replacement of existing 24" main transmission line with new 36" water line from Moss Lake to City distribution grid is complete (\$15.2 million). The NTE Energy Company has completed funding for its \$450 million dollar investment in an Electric Power Plant with an anticipated completion date of January 2018. NTE will produce and distribute electrical power utilizing a Combined Cycle Natural Gas Facility with its purchase of natural gas being delivered directly from Williams (Transco) with Kings Mountain providing domestic natural gas and electrical distribution needs. This will generate a significant increase in the City of Kings Mountain's tax base and the City will be providing all water and wastewater needs for this facility. This new plant will be the largest water customer regarding daily volume at this time. The City has secured a 20-year wholesale contract with NTE beginning on December 31, 2018 at midnight through December 31, 2038, which will generate significant electrical wholesale power savings of approximately 5 million dollars per year. We anticipate industrial growth in the recently annexed land area bordering the NTE Plant site, and there are also two new data centers currently under construction with a third that is expanding along with several other industrial expansions.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities. The property tax rate increased from 40 cents to 43 cents per \$100 in assessed property value. The FY 16-17 budget increased over \$5.5 million dollars over prior year due to receipt of the \$5 million water/sewer grant and the rising cost of health insurance and increase in retirement contributions as required by State. The City looked at all rates and fee schedules and increased the Natural Gas Base Facility charge and the CCF rate tiers, increase in residential and commercial sanitation rates, and recycling rate increase. A priority in the budget was to address the employees' salaries with an in house study with HR and management team. The City continues to make improvements to the downtown business area and offer downtown façade grants and industrial incentives. The budget addresses infrastructure needs that will improve our system that are funded by State Grants and also expansions that are reimbursed by NTE that will bring additional revenue both in utilities and in General Fund. Several grants were awarded including public safety, downtown revitalization, continued Lifetime Learning LSTA for the library, and water infrastructure improvements.

Business-Type Activities. The Water Treatment Plant is in the process of a major renovation/expansion phase with \$13.4 million State Revolving Fund interest free loan from NCDENR, Completion is expected in January 2017. The City has entered into a 20-year contract with NTE Energy to supply the City with electrical power starting in January 2018. The City has taken progressive strides in being the leader in technology and always looking for cost saving measures while at the same time keeping our rates competitive on a national state and local level plus Kings Mountain offers more services than most municipalities – fiber and data storage, smart meter, recycling program, senior center, library and all four utilities.

Requests for Information

This report is designed to provide an overview of the City’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:

City of Kings Mountain
Finance Director
PO Box 429
Kings Mountain, North Carolina 28086

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	ABC Board	Tourism Development Authority Board
Assets:					
Current assets:					
Cash and cash equivalents	\$ 4,898,259	\$ 6,109,884	\$ 11,008,143	\$ 327,260	\$ 138,433
Taxes receivable, net	59,146	-	59,146	-	-
Accounts receivable, net	629,286	2,091,575	2,720,861	67	-
Due from other governments	585,683	2,527,484	3,113,167	-	12,081
Internal balances	(180,000)	180,000	-	-	-
Inventories	83,148	897,550	980,698	122,130	-
Prepaid items	-	-	-	6,280	-
Total current assets	<u>6,075,522</u>	<u>11,806,493</u>	<u>17,882,015</u>	<u>455,737</u>	<u>150,514</u>
Restricted assets:					
Cash and cash equivalents	<u>251,272</u>	<u>604,236</u>	<u>855,508</u>	-	-
Non-current assets:					
Capital assets:					
Land, non-depreciable improvements, and construction in progress	3,818,510	29,199,172	33,017,682	78,875	-
Other capital assets, net of depreciation	<u>6,002,921</u>	<u>31,204,514</u>	<u>37,207,435</u>	<u>16,860</u>	-
Total capital assets	<u>9,821,431</u>	<u>60,403,686</u>	<u>70,225,117</u>	<u>95,735</u>	-
Total assets	<u>16,148,225</u>	<u>72,814,415</u>	<u>88,962,640</u>	<u>551,472</u>	<u>150,514</u>
Deferred Outflows of Resources	<u>398,917</u>	<u>171,276</u>	<u>570,193</u>	<u>6,898</u>	-
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	759,288	1,460,552	2,219,840	148,660	487
Unearned revenues	159,477	-	159,477	-	-
Liabilities to be paid from restricted assets:					
Customer deposits	-	330,800	330,800	-	-
Long-term liabilities:					
Net pension liability	369,620	166,061	535,681	3,501	-
Due within one year	593,552	3,316,264	3,909,816	-	-
Due in more than one year	<u>4,583,627</u>	<u>26,825,587</u>	<u>31,409,214</u>	-	-
Total liabilities	<u>6,465,564</u>	<u>32,099,264</u>	<u>38,564,828</u>	<u>152,161</u>	<u>487</u>
Deferred Inflows of Resources:					
Pension deferrals	<u>208,418</u>	<u>70,003</u>	<u>278,421</u>	<u>1,820</u>	-
Net Position:					
Net investment in capital assets	8,029,194	31,888,274	39,917,468	95,735	-
Restricted for:					
Perpetual maintenance	23,614	-	23,614	-	-
Stabilization by State statute	943,422	-	943,422	-	-
Streets - Powell Bill	62,059	-	62,059	-	-
Public safety	318,398	-	318,398	-	-
Cultural and recreational	570,359	-	570,359	-	-
Working capital	-	-	-	44,844	-
Capital improvements	-	-	-	20,491	-
Tourism	-	-	-	-	150,027
Unrestricted	<u>(73,886)</u>	<u>8,928,150</u>	<u>8,854,264</u>	<u>243,319</u>	-
Total net position	<u>\$ 9,873,160</u>	<u>\$ 40,816,424</u>	<u>\$ 50,689,584</u>	<u>\$ 404,389</u>	<u>\$ 150,027</u>

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 2,403,680	\$ 5,187	\$ -	\$ -
Public safety	4,597,688	7,540	301,098	-
Transportation	1,631,733	-	366,155	-
Economic and physical development	812,052	234,290	66,465	96,107
Environmental protection	1,163,304	790,820	-	-
Culture and recreation	1,861,877	417,579	345,300	-
Interest expense	35,892	-	-	-
Total governmental activities	<u>12,506,226</u>	<u>1,455,416</u>	<u>1,079,018</u>	<u>96,107</u>
Business-Type Activities:				
Water and sewer	5,040,253	6,022,848	837	-
Electric	9,194,827	13,006,728	-	-
Gas	3,673,970	4,251,230	-	-
Stormwater	411,230	400,667	-	-
Total business-type activities	<u>18,320,280</u>	<u>23,681,473</u>	<u>837</u>	<u>-</u>
Total primary government	<u>\$ 30,826,506</u>	<u>\$ 25,136,889</u>	<u>\$ 1,079,855</u>	<u>\$ 96,107</u>
Component Units:				
ABC Board	\$ 1,474,694	\$ 1,512,707	\$ -	\$ -
Tourism Development Authority Board	<u>72,877</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 1,547,571</u>	<u>\$ 1,512,707</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Net (Expense) Revenue and Changes in Net Position</u>			<u>Component Units</u>	
	<u>Primary Government</u>			<u>ABC Board</u>	<u>Tourism Development Authority Board</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>		
Functions/Programs:					
Primary Government:					
Governmental Activities:					
General government	\$ (2,398,493)	\$ -	\$ (2,398,493)		
Public safety	(4,289,050)	-	(4,289,050)		
Transportation	(1,265,578)	-	(1,265,578)		
Economic and physical development	(415,190)	-	(415,190)		
Environmental protection	(372,484)	-	(372,484)		
Culture and recreation	(1,098,998)	-	(1,098,998)		
Interest expense	(35,892)	-	(35,892)		
Total governmental activities	<u>(9,875,685)</u>	<u>-</u>	<u>(9,875,685)</u>		
Business-Type Activities:					
Water and sewer	-	983,432	983,432		
Electric	-	3,811,901	3,811,901		
Gas	-	577,260	577,260		
Stormwater	-	(10,563)	(10,563)		
Total business-type activities	<u>-</u>	<u>5,362,030</u>	<u>5,362,030</u>		
Total primary government	<u>(9,875,685)</u>	<u>5,362,030</u>	<u>(4,513,655)</u>		
Component Units:					
ABC Board				\$ 38,013	\$ -
Tourism Development Authority Board				<u>-</u>	<u>(72,877)</u>
Total component units				<u>38,013</u>	<u>(72,877)</u>
General Revenues:					
Taxes:					
Property taxes, levied for general purposes	4,675,258	-	4,675,258	-	-
Local option sales tax	1,312,366	-	1,312,366	-	-
Payment in lieu of taxes	137,681	-	137,681	-	-
Franchise taxes	982,516	-	982,516	-	-
Other taxes and licenses	624,697	-	624,697	-	120,311
Unrestricted investment earnings	9,045	19,543	28,588	232	32
Miscellaneous	-	16,210	16,210	-	-
Total general revenues before transfers	<u>7,741,563</u>	<u>35,753</u>	<u>7,777,316</u>	<u>232</u>	<u>120,343</u>
Transfers	<u>2,481,000</u>	<u>(2,481,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>10,222,563</u>	<u>(2,445,247)</u>	<u>7,777,316</u>	<u>232</u>	<u>120,343</u>
Change in net position	346,878	2,916,783	3,263,661	38,245	47,466
Net Position:					
Beginning of year - July 1	<u>9,526,282</u>	<u>37,899,641</u>	<u>47,425,923</u>	<u>366,144</u>	<u>102,561</u>
End of year - June 30	<u>\$ 9,873,160</u>	<u>\$ 40,816,424</u>	<u>\$ 50,689,584</u>	<u>\$ 404,389</u>	<u>\$ 150,027</u>

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Nonmajor</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Assets:			
Cash and cash equivalents	\$ 3,692,736	\$ 791,694	\$ 4,484,430
Cash and cash equivalents, restricted	227,658	23,614	251,272
Taxes receivable, net	59,146	-	59,146
Accounts receivable, net	357,739	-	357,739
Due from other governments	585,683	-	585,683
Inventories	83,148	-	83,148
Total assets	<u>\$ 5,006,110</u>	<u>\$ 815,308</u>	<u>\$ 5,821,418</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 474,438	\$ 3,504	\$ 477,942
Due to other funds	180,000	-	180,000
Moss Lake unearned revenues	158,502	-	158,502
Unearned revenues	975	-	975
Total liabilities	<u>813,915</u>	<u>3,504</u>	<u>817,419</u>
Deferred Inflows of Resources:			
Property taxes receivable	<u>59,146</u>	<u>-</u>	<u>59,146</u>
Fund Balances:			
Non-spendable:			
Inventories	83,148	-	83,148
Perpetual maintenance	-	23,614	23,614
Restricted:			
Stabilization by State statute	943,422	-	943,422
Streets	62,059	-	62,059
Public safety	74,264	244,134	318,398
Cultural and recreational	91,335	479,024	570,359
Committed:			
Future capital projects	-	65,032	65,032
Assigned	182,556	-	182,556
Unassigned	<u>2,696,265</u>	<u>-</u>	<u>2,696,265</u>
Total fund balances	<u>4,133,049</u>	<u>811,804</u>	<u>4,944,853</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,006,110</u>	<u>\$ 815,308</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,821,431
The assets and liabilities of internal service funds are included in the Statement of Net Position.	425,864
Net pension liability	(369,620)
Contributions to pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	338,343
Pension related deferrals	(147,844)
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	59,146
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and, therefore, not reported in the funds.	<u>(5,199,013)</u>
Net position of governmental activities	<u>\$ 9,873,160</u>

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Nonmajor</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:			
Ad valorem taxes	\$ 4,680,306	\$ -	\$ 4,680,306
Other taxes and licenses	3,057,260	-	3,057,260
Restricted intergovernmental	829,070	104,777	933,847
Permits and fees	235,171	-	235,171
Sales and services	1,138,562	-	1,138,562
Donations	-	200,260	200,260
Investment earnings	8,395	650	9,045
Miscellaneous	122,701	-	122,701
Total revenues	<u>10,071,465</u>	<u>305,687</u>	<u>10,377,152</u>
Expenditures:			
Current:			
General government	2,454,309	-	2,454,309
Public safety	4,288,282	60,793	4,349,075
Transportation	1,465,551	-	1,465,551
Economic and physical development	725,720	88,513	814,233
Environmental protection	1,178,109	-	1,178,109
Culture and recreation	1,741,768	-	1,741,768
Debt service:			
Principal	508,464	-	508,464
Interest	33,580	-	33,580
Total expenditures	<u>12,395,783</u>	<u>149,306</u>	<u>12,545,089</u>
Revenues over (under) expenditures	<u>(2,324,318)</u>	<u>156,381</u>	<u>(2,167,937)</u>
Other Financing Sources (Uses):			
Transfers in	2,679,033	206,792	2,885,825
Transfers out	(302,792)	(102,033)	(404,825)
Issuance of debt	475,551	-	475,551
Total other financing sources (uses)	<u>2,851,792</u>	<u>104,759</u>	<u>2,956,551</u>
Net change in fund balances	527,474	261,140	788,614
Fund Balances:			
Beginning of year - July 1	<u>3,605,575</u>	<u>550,664</u>	<u>4,156,239</u>
End of year - June 30	<u>\$ 4,133,049</u>	<u>\$ 811,804</u>	<u>\$ 4,944,853</u>

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

Net changes in fund balances - total governmental funds	\$ 788,614
---	------------

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.

Capital outlay	\$ 830,197	
Disposals, loss	(42)	
Depreciation expense	<u>(1,169,293)</u>	(339,138)

Change in deferred inflows for tax revenues	(5,048)
---	---------

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	(7,115)
---	---------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Issuance of debt	(475,551)	
Repayment of debt principal	508,464	
Accrual of net pension obligation	(59,078)	
OPEB	(343,028)	
Pension expense	117,211	
Accrual of interest expense payable	(2,312)	
Accrual of compensated absences	<u>(9,750)</u>	(264,044)

Net revenue of internal service funds determined to be governmental-type	<u>173,609</u>
--	----------------

Total change in net position of governmental activities (Exhibit B)	<u><u>\$ 346,878</u></u>
---	--------------------------

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 4,379,000	\$ 4,379,000	\$ 4,680,306	\$ 301,306
Other taxes	2,755,307	2,755,307	3,057,260	301,953
Restricted intergovernmental	686,011	875,780	829,070	(46,710)
Permits and fees	67,500	67,500	235,171	167,671
Investment earnings	5,000	5,500	8,395	2,895
Sales and services	1,326,825	1,326,825	1,138,562	(188,263)
Miscellaneous	129,002	151,002	122,701	(28,301)
Total revenues	<u>9,348,645</u>	<u>9,560,914</u>	<u>10,071,465</u>	<u>510,551</u>
Expenditures:				
Current:				
General government	2,365,430	2,514,130	2,454,309	59,821
Public safety	4,117,551	4,498,197	4,288,282	209,915
Transportation	1,438,436	1,587,316	1,465,551	121,765
Economic and physical development	1,495,616	1,351,616	725,720	625,896
Environmental protection	1,083,832	1,240,832	1,178,109	62,723
Culture and recreation	1,650,199	1,807,733	1,741,768	65,965
Debt service:				
Principal retirement	508,464	508,464	508,464	-
Interest and fees	68,199	39,000	33,580	5,420
Total expenditures	<u>12,727,727</u>	<u>13,547,288</u>	<u>12,395,783</u>	<u>1,151,505</u>
Revenues over (under) expenditures	<u>(3,379,082)</u>	<u>(3,986,374)</u>	<u>(2,324,318)</u>	<u>1,662,056</u>
Other Financing Sources (Uses):				
Transfers in	2,831,779	2,835,779	2,679,033	(156,746)
Transfers out	(234,500)	(437,326)	(302,792)	134,534
Issuance of debt	-	475,551	475,551	-
Total other financing sources (uses)	<u>2,597,279</u>	<u>2,874,004</u>	<u>2,851,792</u>	<u>(22,212)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>(781,803)</u>	<u>(1,112,370)</u>	<u>527,474</u>	<u>1,639,844</u>
Fund balance appropriated	<u>781,803</u>	<u>1,112,370</u>	<u>-</u>	<u>1,112,370</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>527,474</u>	<u>\$ 527,474</u>
Fund Balance:				
Beginning of year - July 1			<u>3,605,575</u>	
End of year - June 30			<u>\$ 4,133,049</u>	

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	Business-Type Activities				Total	Governmental Activities Internal Service Funds
	Enterprise Funds					
	Water and Sewer Fund	Electric Fund	Gas Fund	Nonmajor Fund		
Assets:						
Current assets:						
Cash and cash equivalents	\$ 2,972,522	\$ 2,140,693	\$ 783,287	\$ 213,382	\$ 6,109,884	\$ 413,829
Cash - restricted	351,501	162,035	90,700	-	604,236	-
Accounts receivable, net	567,119	1,140,953	360,441	23,062	2,091,575	271,547
Due from other government	283,479	2,244,005	-	-	2,527,484	-
Due from other funds	-	30,000	150,000	-	180,000	-
Inventories	261,728	511,694	124,128	-	897,550	-
Total current assets	<u>4,436,349</u>	<u>6,229,380</u>	<u>1,508,556</u>	<u>236,444</u>	<u>12,410,729</u>	<u>685,376</u>
Non-current assets:						
Capital assets:						
Land and other non-depreciable assets	27,518,665	39,890	1,640,617	-	29,199,172	-
Other capital assets, net of depreciation	22,067,496	6,440,464	2,459,077	237,477	31,204,514	-
Total capital assets	<u>49,586,161</u>	<u>6,480,354</u>	<u>4,099,694</u>	<u>237,477</u>	<u>60,403,686</u>	<u>-</u>
Total assets	<u>54,022,510</u>	<u>12,709,734</u>	<u>5,608,250</u>	<u>473,921</u>	<u>72,814,415</u>	<u>685,376</u>
Deferred Outflows of Resources	<u>79,827</u>	<u>45,833</u>	<u>28,510</u>	<u>17,106</u>	<u>171,276</u>	<u>-</u>
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	153,875	1,127,895	168,668	10,114	1,460,552	259,512
Liabilities to be paid from restricted assets:						
Customer deposits	78,065	162,035	90,700	-	330,800	-
Current portion of compensated absences	25,731	23,119	7,098	8,843	64,791	-
Current portion of long-term liabilities	2,459,934	402,473	356,309	32,757	3,251,473	-
Total current liabilities	<u>2,717,605</u>	<u>1,715,522</u>	<u>622,775</u>	<u>51,714</u>	<u>5,107,616</u>	<u>259,512</u>
Non-current liabilities:						
Net pension liability	74,996	48,211	26,784	16,070	166,061	-
Notes payable	23,296,912	557,684	1,597,127	85,652	25,537,375	-
OPEB liability	582,320	377,524	208,467	55,113	1,223,424	-
Compensated absences	25,730	23,118	7,097	8,843	64,788	-
Total non-current liabilities	<u>23,979,958</u>	<u>1,006,537</u>	<u>1,839,475</u>	<u>165,678</u>	<u>26,991,648</u>	<u>-</u>
Total liabilities	<u>26,697,563</u>	<u>2,722,059</u>	<u>2,462,250</u>	<u>217,392</u>	<u>32,099,264</u>	<u>259,512</u>
Deferred Inflows of Resources	<u>38,979</u>	<u>8,751</u>	<u>13,921</u>	<u>8,352</u>	<u>70,003</u>	<u>-</u>
Net Position:						
Net investment in capital assets	24,102,751	5,520,197	2,146,258	119,068	31,888,274	-
Unrestricted	3,263,044	4,504,560	1,014,331	146,215	8,928,150	425,864
Total net position	<u>\$ 27,365,795</u>	<u>\$ 10,024,757</u>	<u>\$ 3,160,589</u>	<u>\$ 265,283</u>	<u>\$ 40,816,424</u>	<u>\$ 425,864</u>

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities				Total	Governmental
	Enterprise Funds					Internal
	Water and Sewer Fund	Electric Fund	Gas Fund	Nonmajor Fund		Service Funds
Operating Revenues:						
Charges for services	\$ 6,022,848	\$ 12,888,433	\$ 4,169,042	\$ 398,667	\$ 23,478,990	\$ 2,870,188
Miscellaneous revenues	-	118,295	82,188	2,000	202,483	-
Total operating revenues	6,022,848	13,006,728	4,251,230	400,667	23,681,473	2,870,188
Operating Expenses:						
Salaries and fringe benefits	1,556,465	1,243,868	660,262	335,163	3,795,758	-
Cost of merchandise sold	621,068	6,223,150	2,117,291	-	8,961,509	-
Other operating expenses	1,264,341	1,075,730	680,288	44,690	3,065,049	-
Depreciation	1,551,227	638,140	180,792	29,426	2,399,585	-
Excess policy fees	-	-	-	-	-	77,731
Administrative fees	-	-	-	-	-	210,102
Claims	-	-	-	-	-	2,409,512
Total operating expenses	4,993,101	9,180,888	3,638,633	409,279	18,221,901	2,697,345
Operating income (loss)	1,029,747	3,825,840	612,597	(8,612)	5,459,572	172,843
Non-Operating Revenues (Expenses):						
Interest income	8,478	8,382	2,678	5	19,543	766
Interest expense	(47,152)	(13,939)	(35,337)	(1,951)	(98,379)	-
Other non-operating income	3,865	-	12,345	-	16,210	-
Total non-operating revenues (expenses)	(34,809)	(5,557)	(20,314)	(1,946)	(62,626)	766
Income (loss) before transfers and capital contributions	994,938	3,820,283	592,283	(10,558)	5,396,946	173,609
Transfers from other funds	-	-	-	96,000	96,000	-
Transfers to other funds	-	(2,247,000)	(330,000)	-	(2,577,000)	-
Capital contributions	837	-	-	-	837	-
Total transfers and capital contributions	837	(2,247,000)	(330,000)	96,000	(2,480,163)	-
Change in net position	995,775	1,573,283	262,283	85,442	2,916,783	173,609
Net Position:						
Beginning of year - July 1	26,370,020	8,451,474	2,898,306	179,841	37,899,641	252,255
End of year - June 30	\$ 27,365,795	\$ 10,024,757	\$ 3,160,589	\$ 265,283	\$ 40,816,424	\$ 425,864

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities - Enterprise Funds				Total	Governmental
	Water and Sewer Fund	Electric Fund	Gas Fund	Nonmajor Fund		Internal Service Funds
Cash Flows from Operating Activities:						
Cash received from customers	\$ 6,637,104	\$12,218,583	\$ 3,999,844	\$ 401,421	\$ 23,256,952	\$ 2,644,844
Cash paid for goods and services	(4,157,294)	(7,427,011)	(2,863,836)	(43,889)	(14,492,030)	(2,605,197)
Cash paid to employees for services	(1,511,395)	(1,214,930)	(648,426)	(322,847)	(3,697,598)	-
Cash received (paid) for customer deposits	8,650	17,220	8,950	-	34,820	-
Other operating revenues	-	118,295	82,188	2,000	202,483	-
Net cash provided (used) by operating activities	<u>977,065</u>	<u>3,712,157</u>	<u>578,720</u>	<u>36,685</u>	<u>5,304,627</u>	<u>39,647</u>
Cash Flows from Capital and Related Financing Activities:						
Acquisition and construction of capital assets	(11,448,203)	(440,381)	(1,860,076)	(115,766)	(13,864,426)	-
Principal paid on bonds and equipment contracts	(1,824,284)	(444,079)	(278,225)	(33,750)	(2,580,338)	-
Proceeds from issuance of debt	12,725,673	232,000	1,635,597	90,765	14,684,035	-
Other non-operating revenues	3,865	-	12,345	-	16,210	-
Interest expense	(67,987)	(17,987)	(30,660)	(1,016)	(117,650)	-
Net cash provided (used) by capital and related financing activities	<u>(610,936)</u>	<u>(670,447)</u>	<u>(521,019)</u>	<u>(59,767)</u>	<u>(1,862,169)</u>	<u>-</u>
Cash Flows from Non-Capital Financing Activities:						
Capital contributions	837	-	-	-	837	-
(Increase) decrease in due from other funds	-	10,000	50,000	-	60,000	-
Operating transfers	-	(2,247,000)	(330,000)	96,000	(2,481,000)	-
Net cash provided (used) by non-capital financing activities	<u>837</u>	<u>(2,237,000)</u>	<u>(280,000)</u>	<u>96,000</u>	<u>(2,420,163)</u>	<u>-</u>
Cash Flows from Investing Activities:						
Interest income	8,478	8,382	2,678	5	19,543	766
Net increase (decrease) in cash and cash equivalents	375,444	813,092	(219,621)	72,923	1,041,838	40,413
Cash and Cash Equivalents:						
Beginning of year - July 1	<u>2,948,579</u>	<u>1,489,636</u>	<u>1,093,608</u>	<u>140,459</u>	<u>5,672,282</u>	<u>373,416</u>
End of year - June 30	<u>\$ 3,324,023</u>	<u>\$ 2,302,728</u>	<u>\$ 873,987</u>	<u>\$ 213,382</u>	<u>\$ 6,714,120</u>	<u>\$ 413,829</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating income (loss)	\$ 1,029,747	\$ 3,825,840	\$ 612,597	\$ (8,612)	\$ 5,459,572	\$ 172,843
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	1,551,227	638,140	180,792	29,426	2,399,585	-
Changes in assets, deferred outflows of resources, and liabilities:						
(Increase) decrease in:						
Accounts receivable	614,256	(669,850)	(169,198)	2,754	(222,038)	(225,344)
Inventories	21,200	(48,030)	(33,273)	-	(60,103)	-
Net pension asset	93,669	53,525	33,453	20,072	200,719	-
Deferred outflows of resources - pensions	(3,044)	(1,957)	(1,087)	(653)	(6,741)	-
Increase (decrease) in:						
Accounts payable and accrued liabilities	(2,305,082)	(82,469)	(43,889)	(159)	(2,431,599)	92,148
Accrued OPEB liability	80,762	53,230	31,204	18,355	183,551	-
Customer deposits	8,650	17,220	8,950	-	34,820	-
Deferred inflows of resources - pensions	(189,316)	(121,703)	(67,613)	(40,568)	(419,200)	-
Net pension liability	74,996	48,211	26,784	16,070	166,061	-
Net cash provided (used) by operating activities	<u>\$ 977,065</u>	<u>\$ 3,712,157</u>	<u>\$ 578,720</u>	<u>\$ 36,685</u>	<u>\$ 5,304,627</u>	<u>\$ 39,647</u>

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	<u>Firefighter's Retirement Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 225,348
Accounts receivable	<u>6,600</u>
Total assets	<u>\$ 231,948</u>
 Liabilities:	
Intergovernmental payable	<u>\$ 231,948</u>

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

This page left blank intentionally.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

1. Summary of Significant Accounting Policies

The accounting policies of the City of Kings Mountain (the "City") and its discretely presented component units conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The City is a municipal corporation that is governed by an elected mayor and a seven-member Council. As required by generally accepted accounting principles, these financial statements present the City and its component units, the City of Kings Mountain ABC Board (the "ABC Board") and the Tourism Development Authority Board (the "TDA Board"), legally separate entities for which the City is financially accountable. The discretely presented component units presented below are reported in separate columns in the City's financial statements in order to emphasize that they are legally separate from the City.

City of Kings Mountain ABC Board

The members of the ABC Board's governing board are appointed by the City. In addition, the ABC Board is required by State statute to distribute a portion of its surpluses to the General Fund of the City. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at: City of Kings Mountain ABC Board, P.O. Box 785, Kings Mountain, North Carolina 28086.

Tourism Development Authority Board

The Tourism Development Authority Board was created by session law SL 2001-439, Part II to market and promote tourism and cultural development in the City. The members of the Tourism Development Authority Board's governing board are appointed by the City. The City transfers a portion of the occupancy tax levied by the City to the Tourism Development Authority Board. The TDA Board, which has a June 30 year-end, is a discretely presented component unit. Separate financial statements have not been issued for the TDA Board.

B. Basis of Presentation

Government-Wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

Fund Financial Statements. The fund financial statements provide information about the City's funds, including the Fiduciary Fund. Separate statements for each fund category - *governmental proprietary, and fiduciary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

The City reports the following major governmental fund:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, intergovernmental revenues, other taxes and licenses, and operating transfers from proprietary funds. The primary expenditures are for public safety, street maintenance and construction, sanitation services, and general governmental services.

The City reports the following nonmajor governmental funds:

Special Revenue Fund

Emergency Telephone System Fund. This fund is used to account for 911 revenues received by the State 911 Board to enhance the State's 911 system.

Capital Project Funds

General Capital Projects Fund. This fund accounts for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by the proprietary fund).

Senior Center Capital Project Fund. This fund accounts for financial resources to be used for the expansion and improvements of the Senior Center.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Permanent Fund

Cemetery Care Fund. This fund is used to account for perpetual care of the municipal cemetery.

The City reports the following enterprise funds:

Enterprise Funds

Major

Water and Sewer Fund. This fund is used to account for the City's water and sewer operations. The Water and Sewer Capital Projects Fund has been consolidated with the Water and Sewer Fund for financial reporting purposes.

Electric Fund. This fund is used to account for the City's electric operations.

Gas Fund. This fund is used to account for the City's gas operations.

Nonmajor

Stormwater Fund. This fund is used to account for the City's stormwater operations.

The City reports the following fund type:

Internal Service Funds

Internal service funds account for operations that provide services to other departments of the government, or to other governments, on a cost-reimbursement basis. The City has two internal service funds that provide workers' compensation insurance claims and health insurance claims.

Agency Fund

Agency funds are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets the City holds on behalf of others. The City maintains the following agency fund:

Firefighter's Retirement Fund. This fund is used to account for the City's Firefighter's Supplemental Retirement and Relief Plan.

C. Measurement Focus and Basis of Accounting

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the agency funds which have no measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes receivable are not accrued as a 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, State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable on these financial statements and are offset by deferred inflows of resources.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Emergency Telephone System Fund, the enterprise funds, and the Cemetery Care Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the General Capital projects fund, the Senior Center Capital Project Fund, and the Enterprise Capital Project Fund. The enterprise fund project is consolidated with its respective operating fund for reporting purposes. The City's workers' compensation and health insurance funds, which are internal service funds, operate under a financial plan that was adopted by the governing board at the time the City's budget ordinance was approved, as is required by the General Statutes. 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 the multi-year funds.

All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted. The City Manager is authorized by the budget ordinance to transfer appropriations within a department up to the department's total budget; however, any revisions that alter the total expenditures of any fund or department must be approved by the governing board.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are allowance for doubtful accounts and depreciation lives.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

Deposits and Investments

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

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

The City, the ABC Board, and the TDA Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT - Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price.

Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents. The ABC Board and the TDA Board consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Restricted Assets

In accordance with State law {G.S. 136-41.1 through 136-41.4}, Powell Bill funds are classified as restricted cash because it can be expended only for the purpose of maintaining, repairing, constructing, reconstructing or widening of local streets. Drug seizure funds are classified as restricted cash because they can be expended only for public safety purposes. Senior Center funds are classified as restricted for cultural and recreational purposes because they are donations obtained for the purposes of expanding the senior center. A portion of library funds are classified as restricted for cultural and recreational purposes because it was a donation set up through the Foundation for the Carolinas as an Endowment Fund. Cash in the Cemetery Care Fund are classified as restricted because the funds can only be used for cemetery perpetual maintenance. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. The unexpended debt proceeds of the Water and Sewer Fund are classified as restricted assets for the enterprise fund because its use is completely restricted to the purpose for which the proceeds were originally issued.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

City of Kings Mountain Restricted Cash

Governmental Activities:

General Fund:

Streets	\$	62,059
Public safety		74,264
Cultural and recreation		91,335

Nonmajor Funds:

Perpetual maintenance		23,614
Total governmental activities		<u>251,272</u>

Business-Type Activities:

Water and Sewer Fund:

Customer deposits		78,065
Unspent debt proceeds		273,436

Electric Fund:

Customer deposits		162,035
-------------------	--	---------

Gas Fund:

Customer deposits		90,700
Total business-type activities		<u>604,236</u>

Total restricted cash	\$	<u>855,508</u>
-----------------------	----	----------------

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2015. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

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 that were written off in prior years and current data.

Inventories

The inventories of the City and the ABC Board are valued at cost (first-in, first-out), which approximates market. The City's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

The inventories of the City's enterprise funds and those of the City of Kings Mountain ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when used rather than when purchased.

Capital Assets

Capital assets are defined by the City as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of one year. The City has a minimum capitalization cost of \$5,000, with the exception of land, which will be recorded without regard to its value. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, 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 assets' lives are not capitalized.

Capital assets are depreciated on a straight-line basis over the following useful lives to the cost of the assets:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	15-50 years
Buildings	20-50 years
Other improvements	10-50 years
Lines	20-50 years
Vehicles	5-20 years
Equipment	5-50 years

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	20 years
Equipment	10 years

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has two items that meet this

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

criteria, contributions made to the pension plan in the 2016 fiscal year and pension related deferrals. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has two items that meet the criterion for this category – property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

Long-Term Obligations

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

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

Compensated Absences

The vacation policy of the City provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. The ABC Board employees may accumulate up to 12 days earned vacation per year, and such leave is fully vested when earned. Any unused leave is lost at year-end unless special permission is granted to carryover the unused leave.

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

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. The ABC Board's policy provides for accumulation of up to thirty days sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefits purposes. Since the City and the ABC Board have no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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.

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

Perpetual Maintenance – portion of fund balance that is not an available resource because it represents the year-end balance of cemetery care, 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.

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

Restricted for Streets – portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for public safety expenditures. \$74,264 is restricted in the General Fund by police contributions and forfeiture funds. \$244,134 in the nonmajor funds is restricted by revenue source for certain emergency telephone system expenditures.

Restricted for Cultural and Recreational – portion of fund balance that is restricted for cultural and recreational expenditures. The General Fund has \$91,335 restricted for future culture and recreation expenditures while the nonmajor funds have \$479,024 restricted for the same.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Committed Fund Balance

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

Committed for Future Capital Projects – portion of fund balance committed for future capital projects.

Assigned Fund Balance

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

Subsequent Year's Expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the City Manager to modify the appropriations by resource or appropriation within funds up to the department's total budget.

Unassigned Fund Balance

Unassigned fund balance represents the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

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

The City of Kings Mountain has also adopted a minimum fund balance policy for the General Fund, which instructs management to conduct the business of the City in such a manner that available fund balance is at least equal to or greater than 10% of budgeted expenditures. Any portion of the General Fund balance in excess of 10% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the City in a future budget.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

Total fund balance - General Fund	\$ 4,133,049
Less:	
Inventories	83,148
Stabilization by State statute	<u>943,422</u>
Total available fund balance	<u>\$ 3,106,479</u>

Pensions

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

2. Stewardship, Compliance, and Accountability

A. Non-Compliance with North Carolina General Statutes

The City's cash receipts collection is not in accordance with State law G.S. 159-32. State law requires that all monies collected or received by officers and employees be deposited daily unless the governing board has approved that a deposit does not have to be made until the amount on hand is over \$250. Regardless, a deposit must be made on the last business day of the month. Collections at one of the departments are not taken to the bank daily or when it reaches \$250. Management and the Council will place controls over cash receipts collection and ensure it is aligned with State statutes going forward.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2016, the expenditures made in the City's General Fund for Tourism and Development exceeded the authorized appropriations made by the governing board by \$33,896. In addition, the expenditures made in the City's Gas Fund and Stormwater Fund exceeded the authorized appropriations made by the governing board by \$422,660 and \$78,812, respectively. The over-expenditures occurred because the operating expenditures exceeded budgeted amounts and amendments were not made. Management and the Council will more closely monitor the budget in these funds to ensure compliance in future years.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

3. Detail Notes on All Funds

A. Assets

Deposits

All the deposits of the City, the ABC Board, and the TDA Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City, the ABC Board, and the TDA Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, the ABC Board, and the TDA Board, these deposits are considered to be held by the City, the ABC Board, and the TDA Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, the ABC Board, and the TDA Board or the escrow agent.

Because of the inability to measure the exact amounts of collateral pledged for the City, the ABC Board, or the TDA Board under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City, the ABC Board, and the TDA Board have no policy regarding custodial credit risk for deposits, but rely on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2016, the City's deposits had a carrying amount of \$11,498,432 and a bank balance of \$13,139,570. Of the bank balance, \$737,195 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method.

The carrying amount of deposits for the TDA Board was \$138,433 and the bank balance was \$139,017. The bank balance of the TDA Board was fully covered by federal depository insurance.

The carrying amount of deposits for the ABC Board was \$244,913 and the bank balance was \$240,499. The bank balance of the ABC Board was fully covered by federal depository insurance. The ABC Board had certificates of deposit totaling \$80,347 and petty cash funds of \$2,000.

At June 30, 2016, the City's petty cash funds totaled \$2,791.

As part of its banking arrangements, the City has agreed to maintain compensating balances with its primary bank of \$200,000.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Investments

At June 30, 2016, the City of Kings Mountain had \$587,776 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk.

Receivables - Allowances for Doubtful Accounts

The receivables shown in Exhibit A at June 30, 2016 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 357,739	\$ 122,514	\$ 585,683	\$ 1,065,936
Nonmajor - internal service funds	271,547	-	-	271,547
Allowance for doubtful accounts	-	(63,368)	-	(63,368)
Total governmental activities	<u>\$ 629,286</u>	<u>\$ 59,146</u>	<u>\$ 585,683</u>	<u>\$ 1,274,115</u>
Business-Type Activities:				
Water and sewer	\$ 1,036,152	\$ -	\$ 283,479	\$ 1,319,631
Electric	2,082,808	-	2,244,005	4,326,813
Gas	660,457	-	-	660,457
Stormwater	42,309	-	-	42,309
Allowance for doubtful accounts	<u>(1,730,151)</u>	<u>-</u>	<u>-</u>	<u>(1,730,151)</u>
Total business-type activities	<u>\$ 2,091,575</u>	<u>\$ -</u>	<u>\$ 2,527,484</u>	<u>\$ 4,619,059</u>

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

Governmental Activities:	
Local option sales tax	\$ 304,896
Sales tax reimbursement	244,307
DMV MV taxes	24,399
Occupancy tax	12,081
Total	<u>\$ 585,683</u>

Business-type Activities:	
Grant receivable	\$ 283,479
Electric true up credit	2,244,005
Total	<u>\$ 2,527,484</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2016 was as follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Governmental Activities:					
Non-Depreciable Capital Assets:					
Land	\$ 2,687,226	\$ 17,972	\$ -	\$ -	\$ 2,705,198
Construction in progress	1,018,215	95,097	-	-	1,113,312
Total non-depreciable capital assets	<u>3,705,441</u>	<u>113,069</u>	<u>-</u>	<u>-</u>	<u>3,818,510</u>
Depreciable Capital Assets:					
Infrastructure - streets & paving	3,068,780	-	-	-	3,068,780
Buildings	10,614,669	16,800	-	-	10,631,469
Other improvements	1,061,177	7,774	-	-	1,068,951
Equipment	3,585,245	199,549	(28,952)	-	3,755,842
Vehicles	4,911,457	493,005	(268,594)	44,255	5,180,123
Total depreciable capital assets	<u>23,241,328</u>	<u>717,128</u>	<u>(297,546)</u>	<u>44,255</u>	<u>23,705,165</u>
Less Accumulated Depreciation:					
Infrastructure - streets & paving	2,526,397	87,909	-	-	2,614,306
Buildings	8,219,412	362,047	-	-	8,581,459
Other improvements	285,949	52,294	-	-	338,243
Equipment	2,109,746	265,029	(28,910)	-	2,345,865
Vehicles	3,644,696	402,014	(268,594)	44,255	3,822,371
Total accumulated depreciation	<u>16,786,200</u>	<u>\$ 1,169,293</u>	<u>\$ (297,504)</u>	<u>\$ 44,255</u>	<u>17,702,244</u>
Total depreciable capital assets, net	<u>6,455,128</u>				<u>6,002,921</u>
Governmental activities capital assets, net	<u>\$ 10,160,569</u>				<u>\$ 9,821,431</u>

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

Governmental Activities:	
General government	\$ 122,604
Public safety	429,740
Transportation	175,512
Economic and physical development	11,186
Environmental protection	111,093
Cultural and recreational	319,158
Total depreciation expense	<u>\$ 1,169,293</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Proprietary Capital Assets

The capital asset activity of the proprietary funds for the year ended June 30, 2016 was as follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Business-Type Activities:					
Water and Sewer Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 7,044,133	\$ 129,922	\$ -	\$ -	\$ 7,174,055
Construction in progress	9,234,440	11,117,928	(7,758)	-	20,344,610
Total non-depreciable capital assets	<u>16,278,573</u>	<u>11,247,850</u>	<u>(7,758)</u>	<u>-</u>	<u>27,518,665</u>
Depreciable Capital Assets:					
Buildings	14,522,183	-	-	-	14,522,183
Other improvements	38,804,065	2,535	-	-	38,806,600
Lines	14,650,160	67,391	-	-	14,717,551
Equipment	6,832,477	74,790	(52,836)	-	6,854,431
Vehicles	992,310	63,395	-	(15,204)	1,040,501
Total depreciable capital assets	<u>75,801,195</u>	<u>208,111</u>	<u>(52,836)</u>	<u>(15,204)</u>	<u>75,941,266</u>
Less Accumulated Depreciation:					
Buildings	11,757,822	267,470	-	-	12,025,292
Other improvements	32,934,697	411,013	-	-	33,345,710
Lines	2,524,113	534,186	-	-	3,058,299
Equipment	4,406,926	218,855	(52,836)	-	4,572,945
Vehicles	767,025	119,703	-	(15,204)	871,524
Total accumulated depreciation	<u>52,390,583</u>	<u>\$ 1,551,227</u>	<u>\$ (52,836)</u>	<u>\$ (15,204)</u>	<u>53,873,770</u>
Total depreciable capital assets, net	<u>23,410,612</u>				<u>22,067,496</u>
Water and Sewer Fund capital assets, net	<u>39,689,185</u>				<u>49,586,161</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Electric Fund:					
Non-Depreciable Capital Assets:					
Land	39,890	\$ -	\$ -	\$ -	39,890
Depreciable Capital Assets:					
Buildings	2,315,157	-	-	-	2,315,157
Other improvements	1,125,603	-	-	-	1,125,603
Lines	5,716,003	148,306	-	-	5,864,309
Equipment	1,907,121	41,172	-	-	1,948,293
Vehicles	1,412,217	250,903	-	(29,051)	1,634,069
Total depreciable capital assets	<u>12,476,101</u>	<u>440,381</u>	<u>-</u>	<u>(29,051)</u>	<u>12,887,431</u>
Less Accumulated Depreciation:					
Buildings	1,220,164	79,722	-	-	1,299,886
Other improvements	448,867	85,356	-	-	534,223
Lines	2,676,470	208,207	-	-	2,884,677
Equipment	646,153	100,271	-	-	746,424
Vehicles	846,224	164,584	-	(29,051)	981,757
Total accumulated depreciation	<u>5,837,878</u>	<u>\$ 638,140</u>	<u>\$ -</u>	<u>\$ (29,051)</u>	<u>6,446,967</u>
Total depreciable capital assets, net	<u>6,638,223</u>				<u>6,440,464</u>
Electric Fund capital assets, net	<u>6,678,113</u>				<u>6,480,354</u>
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Gas Fund:					
Non-Depreciable Capital Assets:					
Land	31,000	\$ -	\$ -	\$ -	31,000
Construction in progress	-	1,609,617	-	-	1,609,617
Total non-depreciable capital assets	<u>31,000</u>	<u>1,609,617</u>	<u>-</u>	<u>-</u>	<u>1,640,617</u>
Depreciable Capital Assets:					
Buildings	154,498	15,829	-	-	170,327
Lines	2,489,917	7,511	-	-	2,497,428
Equipment	1,276,192	166,875	-	-	1,443,067
Vehicles	301,335	60,244	(45,911)	-	315,668
Total depreciable capital assets	<u>4,221,942</u>	<u>250,459</u>	<u>(45,911)</u>	<u>-</u>	<u>4,426,490</u>
Less Accumulated Depreciation:					
Buildings	15,598	7,993	-	-	23,591
Lines	1,352,929	56,668	-	-	1,409,597
Equipment	247,123	84,729	-	-	331,852
Vehicles	216,882	31,402	(45,911)	-	202,373
Total accumulated depreciation	<u>1,832,532</u>	<u>\$ 180,792</u>	<u>\$ (45,911)</u>	<u>\$ -</u>	<u>1,967,413</u>
Total depreciable capital assets, net	<u>2,389,410</u>				<u>2,459,077</u>
Gas Fund capital assets, net	<u>2,420,410</u>				<u>4,099,694</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Stormwater Fund:					
Depreciable Capital Assets:					
Buildings	23,907	\$ -	\$ -	\$ -	23,907
Other improvements	12,804	25,000	-	-	37,804
Equipment	220,668	90,766	-	-	311,434
Vehicles	109,573	-	-	-	109,573
Total depreciable capital assets	<u>366,952</u>	<u>115,766</u>	<u>-</u>	<u>-</u>	<u>482,718</u>
Less Accumulated Depreciation:					
Buildings	648	1,199	-	-	1,847
Other improvements	163	673	-	-	836
Equipment	171,615	13,028	-	-	184,643
Vehicles	43,389	14,526	-	-	57,915
Total accumulated depreciation	<u>215,815</u>	<u>\$ 29,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>245,241</u>
Total depreciable capital assets, net	<u>151,137</u>				<u>237,477</u>
Stormwater Fund capital assets, net	<u>151,137</u>				<u>237,477</u>
Total for Business-Type Activities:					
Non-depreciable capital assets	16,349,463				29,199,172
Depreciable capital assets, net of depreciation	<u>32,589,382</u>				<u>31,204,514</u>
Total business-type capital assets, net	<u>\$ 48,938,845</u>				<u>\$ 60,403,686</u>

Construction Commitments

The government has active construction projects as of June 30, 2016. At year-end, the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-To-Date</u>	<u>Remaining Commitment</u>
Senior Center addition	\$ 1,262,719	\$ 125,319
Waterline Rehab Project	4,957,324	286,176
Water Plant Improvement Project	9,557,865	3,852,775
36" Water Transmission Line Project	10,304,905	5,857,765

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2016 is composed of the following elements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets	\$ 9,821,431	\$ 60,403,686
Long-term debt	(1,792,237)	(28,788,848)
Add: unexpended debt proceeds	-	273,436
Net investment in capital assets	<u>\$ 8,029,194</u>	<u>\$ 31,888,274</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

ABC Board

Activity for the ABC Board for the year ended June 30, 2016 was as follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Non-Depreciable Capital Assets:				
Land	\$ 78,875	\$ -	\$ -	\$ 78,875
Total non-depreciable capital assets	<u>78,875</u>	<u>-</u>	<u>-</u>	<u>78,875</u>
Depreciable Capital Assets:				
Buildings and improvements	216,257	-	-	216,257
Equipment	70,567	9,150	-	79,717
Total depreciable capital assets	<u>286,824</u>	<u>9,150</u>	<u>-</u>	<u>295,974</u>
Less Accumulated Depreciation:				
Buildings and improvements	216,257	-	-	216,257
Equipment	57,969	4,888	-	62,857
Total accumulated depreciation	<u>274,226</u>	<u>\$ 4,888</u>	<u>\$ -</u>	<u>279,114</u>
Total depreciable capital assets, net	<u>12,598</u>			<u>16,860</u>
ABC Board capital assets, net	<u>\$ 91,473</u>			<u>\$ 95,735</u>

B. Liabilities

Payables

Payables at the government-wide level, Exhibit A, at June 30, 2016 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Total</u>
Governmental Activities:				
General	\$ 213,200	\$ 261,238	\$ 21,834	\$ 496,272
Special revenue fund	3,504	-	-	3,504
Internal service funds	259,512	-	-	259,512
Total governmental activities	<u>\$ 476,216</u>	<u>\$ 261,238</u>	<u>\$ 21,834</u>	<u>\$ 759,288</u>
Business-Type Activities:				
Water and sewer	\$ 96,332	\$ 39,455	\$ 18,088	\$ 153,875
Electric	1,089,377	31,071	7,447	1,127,895
Gas	145,692	15,671	7,305	168,668
Stormwater	635	7,835	1,644	10,114
Total business-type activities	<u>\$ 1,332,036</u>	<u>\$ 94,032</u>	<u>\$ 34,484</u>	<u>\$ 1,460,552</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Pension Plan and Post-Employment Obligations

Local Government Employees' Retirement System

Plan Description. The City and the ABC Board are participating employers in the State-wide Local Governmental Employees' Retirement system (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The City of Kings Mountain employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Kings Mountain's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.67% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Kings Mountain were \$483,200 for the year ended June 30, 2016.

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

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

At June 30, 2016, the City reported a liability of \$535,681 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the City's proportion was 0.119%, which was an increase of 0.006% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$313,944. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 125,916
Net difference between projected and actual earnings on pension plan investments	-	152,505
Changes in proportion and differences between employer contributions and proportionate share of contributions	86,993	-
City contributions subsequent to the measurement date	<u>483,200</u>	<u>-</u>
Total	<u>\$ 570,193</u>	<u>\$ 278,421</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

\$483,200 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows or inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2017	\$ (151,933)
2018	(151,933)
2019	(151,877)
2020	264,315
2021	-
Thereafter	-
Total	<u>\$ (191,428)</u>

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple-year horizons. Global public equity return projections are established through analysis of the equity risk

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	29.0%	2.2%
Global equity	42.0%	5.8%
Real estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation protection	<u>6.0%</u>	3.4%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
City's proportionate share of the net pension liability (asset)	\$ 3,735,378	\$ 535,681	\$ (2,159,993)

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

Law Enforcement Officers Special Separation Allowance

Plan Description. The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .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.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance's membership consisted of:

Active plan members	<u>29</u>
---------------------	-----------

A separate report was not issued for the plan.

Summary of Significant Accounting Policies

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

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

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

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

Contributions. The City 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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The City'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 during the year June 30, 2016.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

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

Annual required contribution	\$ 66,803
Interest on net pension obligation	10,198
Adjustment to the annual required contribution	<u>(17,923)</u>
Annual pension cost	59,078
Employer contributions made for fiscal year ended June 30, 2016	<u>-</u>
Increase in net pension obligation	59,078
Net pension obligation:	
Beginning of year - July 1	<u>203,963</u>
End of year - June 30	<u><u>\$ 263,041</u></u>

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2014	\$ 44,905	0.00%	\$ 144,327
2015	59,636	0.00%	203,963
2016	59,078	0.00%	263,041

Funded Status and Funding Progress. As of December 30, 2015, 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 \$798,699. The covered payroll (annual payroll of active employees covered by the plan) was \$1,382,847, and the ratio of the UAAL to the covered payroll was 57.76%.

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 the plan assets are increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5% of salary of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2016 were \$83,323, which consisted of \$68,442 from the City and \$14,881 from the law enforcement officers.

401(k) Plan

The City provides an investment retirement plan (the "401(k) Plan") pursuant to section 401(k) of the Internal Revenue Code for all non-law enforcement employees who qualify based on tenure with the City. The 401(k) Plan provides for City and employee contributions subject to limitations. Contributions for the year ended June 30, 2016, were \$409,409, which consisted of \$288,425 from the City and \$120,984 from employees.

Other Post-Employment Benefits

Plan Description. In addition to providing pension benefits, the City has elected to provide healthcare benefits to retirees of the City through a single-employer, defined benefit plan. At retirement, the City will pay the employees' medical insurance until Medicare coverage begins. After Medicare begins, the City will pay for a Medicare supplemental policy for the employee. To be eligible, the employee must have completed 20 years of creditable service if hired prior to January 29, 1997, or 25 years of service if hired on or after January 29, 1997. Additionally, employee must be eligible and approved to receive retirement benefits, in accordance with the regulations of the Local Governmental Employees Retirement System. The City funds this benefit when payments are due. The City obtains health coverage through private insurers. A separate report was not issued for the plan.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	24	-
Active plan members	157	31
Total	181	31

Funding Policy. The City pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a City resolution that can be amended by the City Council. The City has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 8.7% of annual covered payroll. For the current year, the City contributed \$65,520, or 1.0%, of annual covered payroll. The City purchases healthcare coverage through private insurers. The City's contributions totaled \$65,520 in fiscal year 2016. There were no contributions made by employees. The City's obligation to contribute to the plan is established and may be amended by the City Council.

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

Annual OPEB Cost and Net Obligation. The City's annual OPEB cost (expense) is calculated based on the annual required contribution (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 thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 585,809
Interest on net OPEB obligation	140,732
Adjustments to annual required contribution	(134,442)
Annual OPEB cost (expense)	592,099
Contributions made	(65,520)
Increase (decrease) in net OPEB obligation	526,579
Net OPEB obligation:	
Beginning of year - July 1	3,518,288
End of year - June 30	\$ 4,044,867

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016 were as follows:

Three-Year Trend Information			
Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 530,306	14.2%	\$ 3,023,255
2015	562,509	12.0%	3,518,288
2016	592,099	11.1%	4,044,867

Fund Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$6,548,366. The covered payroll (annual payroll of active employees covered by the plan) was \$6,767,777, and the ratio of the UAAL to the covered payroll was 96.8%.

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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

In the December 31, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.50 to 5.00% annually for pre-Medicare and 5.50 to 5.00% annually for post-Medicare. Both rates included a 3.00% inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of pay on an open basis. The remaining amortization period at December 31, 2014 was 30 years.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Other Employment Benefits

The City has elected to provide death benefits to law enforcement officers through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the officer's 12 highest months' salary in a row during the 24 months prior to the officer's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. Because all death benefit payments are made from the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. The City has no liability beyond the payment of monthly contributions.

The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. The City considers these contributions to be immaterial.

Deferred Outflows and Inflows of Resources

The City has several deferred outflows of resources. Deferred outflows of resources at year-end are comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 483,200
Changes in proportion and differences between employer contributions and proportionate share of contributions	86,993
Total	<u>\$ 570,193</u>

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

<u>Source</u>	<u>Amount</u>
Differences between expected and actual experience	\$ 125,916
Net difference between projected and actual earnings on pension plan investments	152,505
Taxes receivable, net (General Fund)	59,146
Total	<u>\$ 337,567</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Unemployment Compensation

The City and the ABC Board have elected to pay direct costs of unemployment benefits in lieu of employment security taxes on payroll. A liability for benefit payments could accrue in a period following discharge of employees.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases insurance coverage to protect these exposures. Arthur J. Gallagher & Co. is the City's current insurance broker. State National Insurance Company provides all of the above coverage except for the excess workers' compensation that is placed with Midwest Employers Casualty Co., a Boiler & Machinery policy with Traveler's Property Casualty Co. of America, and an employee dishonesty policy and public official bonds, which are placed with Hartford Fire Insurance Co. These insurance carriers are all rated as "A" carriers by A.M. Best, the industry's leading rating agency.

The City's insurance program consists of general liability coverage of \$1,000,000 per occurrence and \$2,000,000 general aggregate and a per occurrence deductible of \$1,000; auto liability coverage of \$1,000,000 per occurrence and a per occurrence deductible of \$1,000; law enforcement liability coverage of \$1,000,000 per occurrence and \$3,000,000 aggregate with a \$10,000 per occurrence deductible; public officials liability coverage of \$1,000,000 per occurrence and \$3,000,000 aggregate with a \$10,000 deductible; employment practices liability coverage of \$1,000,000 per occurrence and \$3,000,000 aggregate with a \$10,000 deductible; umbrella liability coverage limit of \$1,000,000 with a \$10,000 self-insured retention; employee dishonesty coverage limit of \$250,000 with a per occurrence deductible of \$2,500; property coverage blanket limit of \$77,571,840 with a \$10,000 per occurrence deductible; flood coverage limit of \$1,000,000 with a \$25,000 minimum per occurrence deductible; earth quake coverage limit of \$1,000,000 with a \$25,000 per occurrence deductible; equipment breakdown limit of \$10,000,000 with a \$5,000 deductible; excess workers' compensation and employers liability/occupational accident coverage with a \$550,000 self-insured retention. Settled claims have not exceeded coverage in any of the past three fiscal years.

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

In accordance with G.S. 159-29, the TDA's employees that have access to \$100 or more at any given time of the TDA's funds are performance bonded through a commercial surety bond. The City's Finance Officer is bonded for \$50,000 for the TDA.

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

	<u>2016</u>	<u>2015</u>
Unpaid claims, beginning	\$ 134,344	\$ 135,599
Incurred claims	2,971,022	1,665,799
Claim payments	<u>(2,877,321)</u>	<u>(1,667,054)</u>
Unpaid claims, ending	<u>\$ 228,045</u>	<u>\$ 134,344</u>

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

	<u>2016</u>	<u>2015</u>
Unpaid claims, beginning	\$ 33,020	\$ 11,633
Incurred claims	58,396	81,724
Claim payments	<u>(63,546)</u>	<u>(60,337)</u>
Unpaid claims, ending	<u>\$ 27,870</u>	<u>\$ 33,020</u>

The City of Kings Mountain ABC Board is exposed to various risks of loss related to torts; theft of; damage to, and the destruction of assets; errors and omissions; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage. There have been no significant reduction in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

Claims, Judgments, and Contingent Liabilities

At June 30, 2016, the City was defendant to various lawsuits; however, no provision was made in the financial statements for any contingent liabilities. In the opinion of the City's management and the City's attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Long-Term Obligations

Installment Purchases Agreements

The installment purchase agreements are secured by certain equipment of the City. The financing contracts are as follows:

Serviced by the Governmental Funds:

BB&T \$19,829 note payable in November 2012 for the fiber optic project, due in annual payments of \$4,086, including interest at 1.51% through November 2016	\$ 4,025
BB&T \$52,800 note payable in August 2011 for accounting software, due in annual payments of \$8,246, including interest at 2.28% through August 2018	23,652
BB&T \$150,249 note payable in September 2012 for a sanitation refuse truck, due in annual payments of \$31,209, including interest at 1.93% through September 2016	30,618
BB&T \$210,000 note payable in February 2008 for library repairs and improvements, due in annual payments of \$21,000, plus interest at 3.41% through February 2018	42,000
BB&T \$57,576 note payable in August 2012 for a backhoe loader, due in annual payments of \$12,003, including interest at 2.12% through August 2016	9,564
BB&T \$313,200 note payable in March 2012 for the radio tower project, due in annual payments of \$48,003, including interest at 1.79% through March 2019	139,004
BB&T \$256,200 note payable in March 2014 for a heil front loader, due in annual payments of \$52,869, including interest at 1.59% through March 2018	103,269
BB&T \$1,080,548 note payable in November 2014 for a Municipal Building, due in annual payments of \$135,069, plus interest at 1.90% through November 2022	810,410
BB&T \$299,600 note payable in November 2014 for data center infrastructure, due in annual payments of \$63,021, including interest at 1.85% through September 2019	240,843
Carolina Alliance Bank \$142,000 note payable in August 2015 for a tractor loader backhoe, due in annual payments of \$29,381, including interest at 1.70% through August 2019	112,625
Carolina Alliance Bank \$127,608 note payable in September 2015 for an excavator, due in annual payments of \$26,435, including interest at 1.76% through September 2019	101,180
Carolina Alliance Bank \$205,943 note payable in July 2015 for a heavy rescue vehicle, due in annual payments of \$30,905 including interest at 1.67% through July 2021	<u>175,047</u>
Total governmental activities	<u>\$ 1,792,237</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Serviced by the Enterprise Funds:

Water and Sewer Fund:

Carolina Alliance Bank \$98,581 note payable in September 2015 for a regular cab truck and an excavator, due in annual payments of \$20,421, including interest at 1.76% through September 2019	\$ 78,164
BB&T \$475,893 note payable in November 2012 for the fiber optic project, due in annual payments of \$90,052, including interest at 1.51% through November 2016	33,204
BB&T \$2,359,786 note payable in November 2006 for energy project, due in quarterly payments, including interest at 4.21% through May 2019	684,819
BB&T \$2,378,363 note payable in April 2014 for the smart meters, due in annual payments of \$612,234, including interest at 1.18% through April 2018	445,159
BB&T \$52,800 note payable in August 2011 for accounting software, due in annual payments of \$8,246, including interest at 2.28% through August 2018	22,667
BB&T \$313,200 note payable in March 2012 for the radio tower project, due in annual payments of \$48,003, including interest at 1.79% through March 2019	21,237
BB&T \$71,865 note payable in August 2012 for a backhoe, due in annual payments of \$14,982, plus interest at 2.12% through August 2016	14,982
NC DWSRF \$5,243,500 note payable in October 2014 for water and sewer projects, due in annual payments of \$262,175, interest free through May 2034	4,719,150
NC DWSRF \$16,162,670 note payable in June 2015 for water and sewer projects, due in annual payments of \$808,134, interest free through May 2035	9,366,009
NC DWSRF \$13,410,640 note payable in May 2016 for water and sewer projects, due in annual payments of \$670,532, interest free through May 2036	9,692,785
BB&T \$599,980 note payable in November 2014 for spillway project, due in annual payments, including interest at 2.59% through November 2023	479,984
BB&T \$660,000 note payable in January 2007 for Grace Street water tank, due in annual payments of \$80,766, including interest at 3.85% through January 2017	77,772
BB&T \$46,521 note payable in August 2013 for a dump truck, due in annual payments of \$9,736, plus interest at 2.31% through August 2017	18,817

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

BB&T \$258,954 note payable in October 2011 for a sewer cleaner, due in annual payments of \$39,204, including interest at 1.98% through October 2017	76,140
BB&T \$88,278 note payable in October 2011 for a freightliner dump truck, due in annual payments of \$13,365, including interest at 1.98% through October 2017	<u>25,957</u>
Total Water and Sewer Fund	<u>25,756,846</u>
<i>Electric Fund:</i>	
BB&T \$475,893 note payable in November 2012 for the fiber optic project, due in annual payments of \$90,052, including interest at 1.51% through November 2016	40,248
BB&T \$2,359,786 note payable in November 2006 for energy project, due in quarterly payments, including interest at 4.21% through May 2019	93,385
BB&T \$2,378,363 note payable in April 2014 for the smart meters, due in annual payments of \$612,234, including interest at 1.18% through April 2018	421,096
BB&T \$52,800 note payable in August 2011 for accounting software, due in annual payments of \$8,246, including interest at 2.28% through August 2018	29,565
BB&T \$313,200 note payable in March 2012 for the radio tower project, due in annual payments of \$48,003, including interest at 1.79% through March 2019	19,306
Wells Fargo Equipment Finance Inc. \$232,000 lease purchase agreement in October 2015 for hydraulic articulating aerial device, due in annual payments, plus interest at 1.70% through October 2019	184,027
BB&T \$84,789 note payable in August 2013 for a bucket truck, due in annual payments of \$17,697, plus interest at 2.17% through August 2017	34,274
Suntrust Equipment Finance & Leasing \$230,467 capital lease in October 2014 for hydraulic equipment, due in annual payments of \$47,612, including interest at 1.65% through October 2018	<u>138,256</u>
Total Electric Fund	<u>960,157</u>
<i>Gas Fund:</i>	
Carolina Alliance Bank \$35,597 note payable in September 2015 for a standard cab truck, due in annual payments of \$7,374, including interest at 1.76% through September 2019	28,225

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

BB&T \$475,893 note payable in November 2012 for the fiber optic project, due in annual payments of \$90,052, including interest at 1.51% through November 2016	23,142
BB&T \$2,378,363 note payable in April 2014 for the smart meters, due in annual payments of \$612,234, including interest at 1.18% through April 2018	336,877
BB&T \$52,800 note payable in August 2011 for accounting software, due in annual payments of \$8,246, including interest at 2.28% through August 2018	22,667
BB&T \$313,200 note payable in March 2012 for the radio tower project, due in annual payments of \$48,003, including interest at 1.79% through March 2019	13,514
Carter Bank & Trust \$1,600,000 note payable in October 2015 for NTE Gateway project, due in semi-annual payments of \$89,189, including interest at 2.10% through November 2025	<u>1,529,011</u>
Total Gas Fund	<u>1,953,436</u>
<i>Stormwater Fund:</i>	
Suntrust Equipment Finance & Leasing \$77,380 capital lease in October 2014 for a truck and equipment, due in annual payments of \$15,986, including interest at 1.65% through October 2018	46,420
Carolina Alliance Bank \$90,765 note payable in August 2015 for a rear loader collection vehicle, due in annual payments of \$18,780, including interest at 1.70% through August 2019	<u>71,989</u>
Total Stormwater Fund	<u>118,409</u>
Total business-type activities	<u>\$ 28,788,848</u>

The future minimum payments of the installment purchases as of June 30, 2016 are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 443,323	\$ 33,544	\$ 3,251,473	\$ 105,831
2018	403,402	25,075	3,088,049	73,931
2019	333,877	17,449	2,422,441	46,096
2020	281,207	11,303	2,050,330	30,849
2021	164,965	6,142	1,960,690	24,743
2022-2026	165,463	3,074	9,646,325	49,893
2027-2031	-	-	6,369,540	-
Total	<u>\$ 1,792,237</u>	<u>\$ 96,587</u>	<u>\$ 28,788,848</u>	<u>\$ 331,343</u>

At June 30, 2016, the City had a legal debt margin of approximately \$62,507,000.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Changes in Long-Term Liabilities

A summary of changes in long-term obligations follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>	<u>Current Portion</u>
Governmental Activities:					
Installment purchases	\$ 1,825,150	\$ 475,551	\$ (508,464)	\$ 1,792,237	\$ 443,323
Compensated absences	290,708	207,540	(197,790)	300,458	150,229
Net pension liability - LGERS	-	369,620	-	369,620	-
OPEB obligation	2,478,415	501,313	(158,285)	2,821,443	-
Net pension obligation	<u>203,963</u>	<u>59,078</u>	<u>-</u>	<u>263,041</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 4,798,236</u>	<u>\$ 1,613,102</u>	<u>\$ (864,539)</u>	<u>\$ 5,546,799</u>	<u>\$ 593,552</u>
Business-Type Activities:					
Water and Sewer Fund:					
Installment purchases	\$ 14,855,457	\$ 12,725,673	\$ (1,824,284)	\$ 25,756,846	\$ 2,459,934
Net pension liability - LGERS	-	74,996	-	74,996	-
OPEB obligation	501,558	99,100	(18,338)	582,320	-
Compensated absences	<u>63,458</u>	<u>21,364</u>	<u>(33,361)</u>	<u>51,461</u>	<u>25,731</u>
Total Water and Sewer Fund	<u>\$ 15,420,473</u>	<u>\$ 12,921,133</u>	<u>\$ (1,875,983)</u>	<u>\$ 26,465,623</u>	<u>\$ 2,485,665</u>
Electric Fund:					
Installment purchases	\$ 1,172,236	\$ 232,000	\$ (444,079)	\$ 960,157	\$ 402,473
Net pension liability - LGERS	-	48,211	-	48,211	-
OPEB obligation	324,294	65,316	(12,086)	377,524	-
Compensated absences	<u>48,604</u>	<u>44,746</u>	<u>(47,113)</u>	<u>46,237</u>	<u>23,119</u>
Total Electric Fund	<u>\$ 1,545,134</u>	<u>\$ 390,273</u>	<u>\$ (503,278)</u>	<u>\$ 1,432,129</u>	<u>\$ 425,592</u>
Gas Fund:					
Installment purchases	\$ 596,064	\$ 1,635,597	\$ (278,225)	\$ 1,953,436	\$ 356,309
Net pension liability - LGERS	-	26,784	-	26,784	-
OPEB obligation	177,263	38,289	(7,085)	208,467	-
Compensated absences	<u>25,101</u>	<u>11,432</u>	<u>(22,338)</u>	<u>14,195</u>	<u>7,098</u>
Total Gas Fund	<u>\$ 798,428</u>	<u>\$ 1,712,102</u>	<u>\$ (307,648)</u>	<u>\$ 2,202,882</u>	<u>\$ 363,407</u>
Stormwater Fund:					
Installment purchases	\$ 61,394	\$ 90,765	\$ (33,750)	\$ 118,409	\$ 32,757
Net pension liability - LGERS	-	16,070	-	16,070	-
OPEB obligation	36,758	22,523	(4,168)	55,113	-
Compensated absences	<u>18,646</u>	<u>18,332</u>	<u>(19,292)</u>	<u>17,686</u>	<u>8,843</u>
Total Stormwater Fund	<u>\$ 116,798</u>	<u>\$ 147,690</u>	<u>\$ (57,210)</u>	<u>\$ 207,278</u>	<u>\$ 41,600</u>
Total Business-Type Activities:					
Installment purchases	\$ 16,685,151	\$ 14,684,035	\$ (2,580,338)	\$ 28,788,848	\$ 3,251,473
Net pension liability - LGERS	-	166,061	-	166,061	-
OPEB obligation	1,039,873	225,228	(41,677)	1,223,424	-
Compensated absences	<u>155,809</u>	<u>95,874</u>	<u>(122,104)</u>	<u>129,579</u>	<u>64,791</u>
Total business-type activities long-term liabilities	<u>\$ 17,880,833</u>	<u>\$ 15,171,198</u>	<u>\$ (2,744,119)</u>	<u>\$ 30,307,912</u>	<u>\$ 3,316,264</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Compensated absences, net pension obligation, and other post-employment benefits for governmental activities have been liquidated in the General Fund.

Interfund Balances and Activity

Transfers to/from other funds for the year ended June 30, 2016 consist of the following:

From the Gas Fund to the General Fund for operating expenditures	\$ 330,000
From the Electric Fund to the General Fund for operating and capital expenditures	2,247,000
From the General Fund to the Stormwater Fund for Powell Bill salaries	96,000
From the General Fund to the Cemetery Perpetual Care Fund for perpetual maintenance	7,266
From the General Fund to the E-911 Fund for perpetual maintenance	199,526
From the General Capital Project Fund to the General Fund for the library study expenditure	24,000
From the Senior Center Capital Project Fund to the General Fund for the annual contribution of the Senior Center Expansion project and debt	<u>78,033</u>
Total	<u><u>\$ 2,981,825</u></u>

Balances due to/from other funds at June 30, 2016 consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric Fund	General Fund	\$ 30,000
Gas Fund	General Fund	150,000

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

4. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

5. On-Behalf Payments for Fringe Benefits and Salaries

The City has recognized a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$7,790 for the salary supplement and stipend benefits paid to eligible firemen by the local Board of Trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2016. Under State law the local Board of Trustees for the Fund receives an amount each year, which the Board may use at its own discretion for eligible firemen or their departments.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued		Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
		Liability (AAL) - Projected Unit Credit (B)					
12/31/2009	\$ -	\$ 366,844	\$ 366,844	0.00%	\$ 1,177,710	31.15%	
12/31/2010	-	334,496	334,496	0.00%	1,156,598	28.92%	
12/31/2011	-	349,022	349,022	0.00%	1,187,866	29.38%	
12/31/2013	-	433,166	433,166	0.00%	1,317,204	32.89%	
12/31/2014	-	442,592	442,592	0.00%	1,322,354	33.47%	
12/31/2015	-	798,699	798,699	0.00%	1,382,847	57.76%	

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	12/31/2015
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar closed
Remaining amortization period	15 years
Asset valuation method	Market value

Actuarial assumptions:

Investment rate of return*	3.57%
Projected salary increases *	3.50 - 7.35%

Cost-of-living adjustments	N/A
----------------------------	-----

* Includes inflation at 3.00%

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS - RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit		Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
		(B)					
12/31/2010	\$ -	\$ 5,565,799		\$ 5,565,799	0.00%	\$ 6,047,996	92.0%
12/31/2012	-	6,084,352		6,084,352	0.00%	6,119,411	99.4%
12/31/2014	-	6,548,366		6,548,366	0.00%	6,767,777	96.8%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)		Amount Contributed By Employer	Percentage of ARC Contributed
2014	\$ 525,714		\$ 75,409	14.34%
2015	557,105		67,476	12.11%
2016	585,809		65,520	11.18%

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	12/31/2014
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Amortization factor	26.1695
Asset valuation method	Market value of assets

Actuarial assumptions:	
Investment rate of return*	4.00%
Medical trend assumptions:	
Pre-Medicare trend rate	7.5% - 5.00%
Post-Medicare trend rate	5.5% - 5.00%
Year of ultimate trend rate	2020

* Includes inflation at 3.00%

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability (asset) (%)	0.11936%	0.11345%	0.10970%
Proportion of the net pension liability (asset) (\$)	\$ 535,681	\$ (669,066)	\$ 1,322,306
Covered-employee payroll	\$ 6,929,373	\$ 6,641,526	\$ 6,371,903
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.73%	-10.07%	20.75%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

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

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

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

CITY OF KINGS MOUNTAIN'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST THREE FISCAL YEARSLOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 483,200	\$ 493,511	\$ 471,343
Contributions in relation to the contractually required contribution	<u>483,200</u>	<u>493,511</u>	<u>471,343</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 7,150,178	\$ 6,929,373	\$ 6,641,526
Contributions as a percentage of covered-employee payroll	6.76%	7.12%	7.10%

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad Valorem Taxes:				
Current levy	\$ 4,367,000	\$ 4,666,562	\$ 299,562	\$ 4,469,805
Penalties and interest	12,000	13,744	1,744	17,642
Total ad valorem taxes	<u>4,379,000</u>	<u>4,680,306</u>	<u>301,306</u>	<u>4,487,447</u>
Other Taxes:				
Local option sales tax	1,185,805	1,312,366	126,561	1,127,023
Hold-harmless sales tax	342,756	401,745	58,989	330,322
Utilities franchise tax	930,000	982,516	52,516	932,517
Payments in lieu of taxes	111,746	137,681	25,935	117,708
Miscellaneous	185,000	222,952	37,952	208,122
Total other taxes	<u>2,755,307</u>	<u>3,057,260</u>	<u>301,953</u>	<u>2,715,692</u>
Restricted Intergovernmental:				
Powell Bill allocation	316,996	315,246	(1,750)	316,996
Federal government grants	113,583	109,856	(3,727)	132,876
State government grants	170,526	108,730	(61,796)	505,397
Local government grants	274,675	295,238	20,563	292,910
Total restricted intergovernmental	<u>875,780</u>	<u>829,070</u>	<u>(46,710)</u>	<u>1,248,179</u>
Permits and Fees:				
Privilege licenses	2,500	881	(1,619)	15,607
General permits	65,000	234,290	169,290	105,682
Total permits and fees	<u>67,500</u>	<u>235,171</u>	<u>167,671</u>	<u>121,289</u>
Sales and Services:				
Lake authority income	326,000	368,117	42,117	319,757
Disposal fee revenue	779,000	554,085	(224,915)	695,240
Recycling fees	117,000	81,080	(35,920)	119,881
Cemetery income	83,000	134,845	51,845	93,005
Recreation	21,825	435	(21,390)	17,414
Total sales and services	<u>1,326,825</u>	<u>1,138,562</u>	<u>(188,263)</u>	<u>1,245,297</u>
Investment Earnings:				
Interest income (loss)	5,000	8,012	3,012	10,791
Interest income (loss) - Powell Bill	500	383	(117)	420
Total investment earnings	<u>5,500</u>	<u>8,395</u>	<u>2,895</u>	<u>11,211</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Actual
Miscellaneous:				
Library	17,400	33,164	15,764	21,970
Sale of capital assets	10,000	32,267	22,267	48,737
Court costs and jail fees	3,440	4,169	729	4,361
Other revenues	120,162	53,101	(67,061)	231,457
Total miscellaneous	151,002	122,701	(28,301)	306,525
Total revenues	9,560,914	10,071,465	510,551	10,135,640
Expenditures:				
General Government:				
General Administration:				
Salaries and employee benefits	332,500	328,016	4,484	80,271
Operating expenses	543,096	523,703	19,393	467,869
Capital outlay	-	-	-	146,840
Total	875,596	851,719	23,877	694,980
Administration and Finance:				
Salaries and employee benefits	933,799	941,180	(7,381)	905,888
Operating expenses	279,722	268,618	11,104	278,367
Charges to other funds	(549,180)	(549,180)	-	(549,180)
Capital outlay	19,500	19,486	14	-
Total	683,841	680,104	3,737	635,075
Human Resources:				
Salaries and employee benefits	195,618	199,924	(4,306)	185,817
Operating expenses	53,084	48,737	4,347	48,700
Total	248,702	248,661	41	234,517
Elections Board:				
Operating expenses	6,700	3,060	3,640	-
Garage:				
Salaries and employee benefits	249,943	233,859	16,084	231,740
Operating expenses	36,096	42,928	(6,832)	26,602
Total	286,039	276,787	9,252	258,342

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Actual
Public Works:				
Salaries and employee benefits	166,369	161,889	4,480	132,441
Operating expenses	35,394	27,270	8,124	40,118
Capital outlay	-	-	-	13,430
Total	201,763	189,159	12,604	185,989
Information Technology:				
Salaries and employee benefits	151,956	150,971	985	140,573
Operating expenses	50,200	44,515	5,685	33,852
Capital outlay	9,333	9,333	-	289,013
Total	211,489	204,819	6,670	463,438
Total general government	2,514,130	2,454,309	59,821	2,472,341
Public Safety:				
Police:				
Salaries and employee benefits	2,502,861	2,399,427	103,434	2,230,935
Operating expenses	514,397	435,376	79,021	409,139
Capital outlay	132,371	128,411	3,960	114,554
Total	3,149,629	2,963,214	186,415	2,754,628
Fire:				
Salaries and employee benefits	666,718	668,814	(2,096)	636,086
Operating expenses	198,546	175,681	22,865	141,276
Capital outlay	201,544	201,544	-	-
Total	1,066,808	1,046,039	20,769	777,362
Communications:				
Phone and furniture	-	-	-	21,163
Software	-	-	-	20,889
Hardware	-	-	-	44,454
Total	-	-	-	86,506
Codes and Inspections:				
Salaries and employee benefits	247,740	245,855	1,885	162,177
Operating expenses	35,280	34,434	846	33,241
Charges to other departments	(1,260)	(1,260)	-	(20,760)
Total	281,760	279,029	2,731	174,658
Total public safety	4,498,197	4,288,282	209,915	3,793,154

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Actual
Transportation:				
Streets:				
Salaries and employee benefits	801,102	778,857	22,245	747,196
Operating expenses	181,577	175,144	6,433	172,778
Capital outlay	26,800	23,300	3,500	6,491
Total	1,009,479	977,301	32,178	926,465
Streets - Powell Bill:				
Operating expenses	161,496	129,919	31,577	428,303
Capital outlay	23,008	23,008	-	69,425
Total	184,504	152,927	31,577	497,728
Streets - Main Street:				
Salaries and employee benefits	118,846	115,175	3,671	68,685
Operating expenses	274,487	220,148	54,339	30,608
Total	393,333	335,323	58,010	99,293
Total transportation	1,587,316	1,465,551	121,765	1,523,486
Economic and Physical Development:				
Planning:				
Salaries and employee benefits	197,913	184,882	13,031	191,728
Operating expenses	1,127,230	514,452	612,778	1,778,136
Capital outlay	26,473	26,386	87	-
Total	1,351,616	725,720	625,896	1,969,864
Environmental Protection:				
Sanitation:				
Salaries and employee benefits	424,317	374,143	50,174	405,067
Operating expenses	432,861	428,068	4,793	408,187
Capital outlay	142,000	142,000	-	-
Total	999,178	944,211	54,967	813,254
Cemetery:				
Salaries and employee benefits	105,132	103,735	1,397	92,965
Operating expenses	20,589	19,294	1,295	19,354
Capital outlay	6,500	6,491	9	-
Total	132,221	129,520	2,701	112,319

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Actual
Recycling:				
Salaries and employee benefits	77,685	76,693	992	74,138
Operating expenses	31,748	27,685	4,063	18,739
Total	109,433	104,378	5,055	92,877
Total environmental protection	1,240,832	1,178,109	62,723	1,018,450
Culture and Recreation:				
Library:				
Salaries and employee benefits	395,688	393,986	1,702	350,612
Operating expenses	374,758	355,775	18,983	317,917
Capital outlay	6,414	6,413	1	10,684
Total	776,860	756,174	20,686	679,213
Senior Services:				
Salaries and employee benefits	299,923	250,054	49,869	223,475
Operating expenses	201,231	192,832	8,399	171,335
Capital outlay	-	-	-	16,525
Total	501,154	442,886	58,268	411,335
Recreation:				
Salaries and employee benefits	-	-	-	56,410
Operating expenses	-	-	-	108,399
Total	-	-	-	164,809
Lake Authority:				
Salaries and employee benefits	204,711	202,969	1,742	182,887
Operating expenses	96,336	86,671	9,665	86,891
Capital outlay	144,432	134,932	9,500	5,157
Total	445,479	424,572	20,907	274,935
Tourism and Development:				
Operating expenses	84,240	118,136	(33,896)	103,211
Total culture and recreation	1,807,733	1,741,768	65,965	1,633,503

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Actual
Debt Service:				
Principal retirement	508,464	508,464	-	359,016
Interest and fees	39,000	33,580	5,420	29,844
Total debt service	547,464	542,044	5,420	388,860
Total expenditures	13,547,288	12,395,783	1,151,505	12,799,658
Revenues over (under) expenditures	(3,986,374)	(2,324,318)	1,662,056	(2,664,018)
Other Financing Sources (Uses):				
Transfers from other funds	2,835,779	2,679,033	(156,746)	2,462,224
Transfers to other funds:				
Fiduciary Fund	-	-	-	(3,440)
Special revenue funds	(199,526)	(199,526)	-	-
Cemetery Fund	(6,800)	(7,266)	(466)	-
Enterprise Funds	(156,000)	(96,000)	60,000	(96,000)
Capital Project Fund	(75,000)	-	75,000	(75,000)
Appropriated fund balance	1,112,370	-	(1,112,370)	-
Issuance of debt	475,551	475,551	-	299,600
Total other financing sources (uses)	3,986,374	2,851,792	(1,134,582)	2,587,384
Net change in fund balance	\$ -	527,474	\$ 527,474	(76,634)
Fund Balance:				
Beginning of year - July 1		3,605,575		3,682,209
End of year - June 30		\$ 4,133,049		\$ 3,605,575

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	<u>Special Revenue Fund</u>	<u>Capital Project Funds</u>		<u>Permanent Fund</u>	
	Emergency Telephone System Fund	General Capital Projects Fund	Senior Center Capital Project Fund	Cemetery Care Fund	Total Nonmajor Governmental Funds
Assets:					
Cash and cash equivalents	\$ 247,638	\$ 65,032	\$ 479,024	\$ -	\$ 791,694
Cash and cash equivalents, restricted	-	-	-	23,614	23,614
Total assets	<u>\$ 247,638</u>	<u>\$ 65,032</u>	<u>\$ 479,024</u>	<u>\$ 23,614</u>	<u>\$ 815,308</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	<u>\$ 3,504</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,504</u>
Fund Balances:					
Non-spendable:					
Perpetual maintenance	-	-	-	23,614	23,614
Restricted:					
Public safety	244,134	-	-	-	244,134
Senior Center project	-	-	479,024	-	479,024
Committed:					
Future capital projects	-	65,032	-	-	65,032
Total fund balances	<u>244,134</u>	<u>65,032</u>	<u>479,024</u>	<u>23,614</u>	<u>811,804</u>
Total liabilities and fund balances	<u>\$ 247,638</u>	<u>\$ 65,032</u>	<u>\$ 479,024</u>	<u>\$ 23,614</u>	<u>\$ 815,308</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Special Revenue Fund</u>	<u>Capital Project Funds</u>		<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Emergency Telephone System Fund</u>	<u>General Capital Projects Fund</u>	<u>Senior Center Capital Project Fund</u>	<u>Cemetery Care Fund</u>	
Revenues:					
Donations	\$ -	\$ 35,500	\$ 164,760	\$ -	\$ 200,260
Restricted intergovernmental	104,777	-	-	-	104,777
Investment earnings	624	20	-	6	650
Total revenues	<u>105,401</u>	<u>35,520</u>	<u>164,760</u>	<u>6</u>	<u>305,687</u>
Expenditures:					
Current:					
Economic and physical development	-	-	85,764	2,749	88,513
Public safety	60,793	-	-	-	60,793
Total expenditures	<u>60,793</u>	<u>-</u>	<u>85,764</u>	<u>2,749</u>	<u>149,306</u>
Revenues over (under) expenditures	<u>44,608</u>	<u>35,520</u>	<u>78,996</u>	<u>(2,743)</u>	<u>156,381</u>
Other Financing Sources (Uses):					
Transfers in	199,526	-	-	7,266	206,792
Transfers out	-	(24,000)	(78,033)	-	(102,033)
Total other financing sources (uses)	<u>199,526</u>	<u>(24,000)</u>	<u>(78,033)</u>	<u>7,266</u>	<u>104,759</u>
Net change in fund balances	244,134	11,520	963	4,523	261,140
Fund Balances:					
Beginning of year - July 1	-	53,512	478,061	19,091	550,664
End of year - June 30	<u>\$ 244,134</u>	<u>\$ 65,032</u>	<u>\$ 479,024</u>	<u>\$ 23,614</u>	<u>\$ 811,804</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**EMERGENCY TELEPHONE SYSTEM FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2016**

	2016		
	Final Budget	Actual	Variance Over/Under
Revenues:			
Restricted intergovernmental	\$ 74,732	\$ 104,777	\$ (30,045)
Investment earnings	750	624	126
Total revenues	<u>75,482</u>	<u>105,401</u>	<u>(29,919)</u>
Expenditures:			
Telephone & furniture	53,186	40,349	12,837
Hardware maintenance	-	5,088	(5,088)
Capital outlay	221,822	15,356	206,466
Total expenditures	<u>275,008</u>	<u>60,793</u>	<u>214,215</u>
Revenues over (under) expenditures	(199,526)	44,608	(244,134)
Other Financing Sources (Uses):			
Transfers in (out)	<u>199,526</u>	<u>199,526</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	244,134	<u>\$ 244,134</u>
Fund Balance:			
Beginning of year - July 1		<u>-</u>	
End of year - June 30		<u>\$ 244,134</u>	

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

GENERAL CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues:				
Donations	\$ 70,000	\$ 52,213	\$ 35,500	\$ 87,713
Investment earnings	-	1,299	20	1,319
Total revenues	<u>70,000</u>	<u>53,512</u>	<u>35,520</u>	<u>89,032</u>
Other Financing Sources (Uses):				
Transfers out	<u>(70,000)</u>	<u>-</u>	<u>(24,000)</u>	<u>(24,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 53,512</u>	11,520	<u>\$ 65,032</u>
Fund Balance:				
Beginning of year - July 1			<u>53,512</u>	
End of year - June 30			<u>\$ 65,032</u>	

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**SENIOR CENTER CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues:				
Donations	\$ 500,000	\$ 324,468	\$ 164,760	\$ 489,228
Restricted intergovernmental	100,000	100,000	-	100,000
Total revenues	<u>600,000</u>	<u>424,468</u>	<u>164,760</u>	<u>589,228</u>
Expenditures:				
Architectural fees	74,000	71,696	1,779	73,475
Construction	1,120,000	930,573	64,636	995,209
Capital outlay furnishings	96,360	77,008	19,349	96,357
Project development	97,678	97,678	-	97,678
Total expenditures	<u>1,388,038</u>	<u>1,176,955</u>	<u>85,764</u>	<u>1,262,719</u>
Revenues over (under) expenditures	<u>(788,038)</u>	<u>(752,487)</u>	<u>78,996</u>	<u>(673,491)</u>
Other Financing Sources (Uses):				
Issuance of debt	1,080,548	1,080,548	-	1,080,548
Transfers out	(492,510)	-	(78,033)	(78,033)
Transfers in	200,000	150,000	-	150,000
Total other financing sources (uses)	<u>788,038</u>	<u>1,230,548</u>	<u>(78,033)</u>	<u>1,152,515</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 478,061</u>	963	<u>\$ 479,024</u>
Fund Balance:				
Beginning of year - July 1			<u>478,061</u>	
End of year - June 30			<u>\$ 479,024</u>	

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

CEMETERY CARE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Total
Revenues:				
Investment earnings	\$ -	\$ 6	\$ 6	\$ 6
Expenditures:				
Current:				
Operating expenses	6,800	2,749	4,051	3,496
Capital outlay	-	-	-	8,380
Total expenditures	6,800	2,749	4,051	11,876
Revenues over (under) expenditures	(6,800)	(2,743)	(4,057)	(11,870)
Other Financing Sources (Uses):				
Transfers in (out)	6,800	7,266	466	3,440
Net change in fund balance	\$ -	4,523	\$ 4,523	(8,430)
Fund Balance:				
Beginning of year - July 1		19,091		27,521
End of year - June 30		\$ 23,614		\$ 19,091

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016		Variance Over/Under	2015
	Budget	Actual		Total
Revenues:				
Operating revenues:				
Charges for services	\$ 6,354,039	\$ 6,022,848	\$ (331,191)	\$ 4,879,203
Miscellaneous revenues	17,250	-	(17,250)	24,860
Total operating revenues	<u>6,371,289</u>	<u>6,022,848</u>	<u>(348,441)</u>	<u>4,904,063</u>
Non-operating revenues:				
Interest income (loss)	2,000	8,375	6,375	6,984
Other non-operating revenue	-	837	837	-
Total non-operating revenues	<u>2,000</u>	<u>9,212</u>	<u>7,212</u>	<u>6,984</u>
Total revenues	<u>6,373,289</u>	<u>6,032,060</u>	<u>(341,229)</u>	<u>4,911,047</u>
Expenditures:				
Administration:				
Salaries and employee benefits	175,392	179,884	(4,492)	149,769
Other operating expenditures	340,901	342,231	(1,330)	298,902
Capital outlay	67,000	82,800	(15,800)	625,162
Total administration	<u>583,293</u>	<u>604,915</u>	<u>(21,622)</u>	<u>1,073,833</u>
Plant:				
Salaries and employee benefits	260,696	257,369	3,327	249,997
Other operating expenditures	332,139	239,863	92,276	218,359
Capital outlay	382,388	186,230	196,158	32,890
Cost of merchandise sold	259,496	199,767	59,729	220,081
Total plant	<u>1,234,719</u>	<u>883,229</u>	<u>351,490</u>	<u>721,327</u>
System maintenance and extension:				
Salaries and employee benefits	350,464	330,787	19,677	313,051
Other operating expenditures	303,633	266,321	37,312	272,472
Capital outlay	1,245,581	500,820	744,761	61,304
Total system maintenance and extension	<u>1,899,678</u>	<u>1,097,928</u>	<u>801,750</u>	<u>646,827</u>
Waste water treatment:				
Salaries and employee benefits	341,393	331,242	10,151	330,030
Other operating expenditures	276,426	230,437	45,989	226,478
Capital outlay	8,000	-	8,000	-
Cost of merchandise sold	423,474	393,594	29,880	400,839
Total waste water treatment	<u>1,049,293</u>	<u>955,273</u>	<u>94,020</u>	<u>957,347</u>
Pump station maintenance:				
Salaries and employee benefits	449,213	400,316	48,897	416,300
Other operating expenditures	264,939	185,489	79,450	207,886
Capital outlay	25,000	23,805	1,195	222,090
Cost of merchandise sold	35,000	48,907	(13,907)	132,886
Total pump station maintenance	<u>774,152</u>	<u>658,517</u>	<u>115,635</u>	<u>979,162</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016		Variance Over/Under	2015
	Budget	Actual		Total
Debt Service:				
Principal retirement	1,824,284	1,824,284	-	1,143,917
LPA interest	77,624	67,787	9,837	141,787
Total debt service	<u>1,901,908</u>	<u>1,892,071</u>	<u>9,837</u>	<u>1,285,704</u>
Total expenditures	<u>7,443,043</u>	<u>6,091,933</u>	<u>1,351,110</u>	<u>5,664,200</u>
Revenues over (under) expenditures	<u>(1,069,754)</u>	<u>(59,873)</u>	<u>1,009,881</u>	<u>(753,153)</u>
Other Financing Sources (Uses):				
Transfers in	342,159	-	(342,159)	129,541
Sale of capital assets	-	3,865	3,865	2,440
Proceeds from debt	98,581	98,581	-	-
Total other financing sources (uses)	<u>440,740</u>	<u>102,446</u>	<u>(338,294)</u>	<u>131,981</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(629,014)	42,573	671,587	(621,172)
Appropriated net position	<u>629,014</u>	<u>-</u>	<u>(629,014)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	42,573	<u>\$ 42,573</u>	(621,172)
Reconciliation From Budgetary Basis (Modified Accrual) To Full Accrual:				
Project revenue		103		101
Proceeds from issuance of debt		(98,581)		-
Change in inventories		21,200		101,165
Capital outlay		793,655		941,446
Pension expense		28,183		69,092
Contributions to pension plan		(4,488)		(7,800)
OPEB liability		(80,762)		(78,302)
Accrued interest		20,835		6,973
Principal retirement		1,824,284		1,143,917
Depreciation expense		<u>(1,551,227)</u>		<u>(1,161,612)</u>
Change in net position		<u>\$ 995,775</u>		<u>\$ 393,808</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ENTERPRISE FUND CAPITAL PROJECT - WATER PLANT UPGRADE AND LINE REHAB PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues:				
Interest income	\$ -	\$ 101	\$ 103	\$ 204
Expenditures:				
36" Water Line Project	16,162,670	8,518,830	1,786,075	10,304,905
Water Line Rehabilitation Project	5,243,500	4,944,333	12,991	4,957,324
Water Plant Improvement Project	13,410,640	704,918	8,852,947	9,557,865
Spillway Project	599,980	614,342	2,535	616,877
Total expenditures	<u>35,416,790</u>	<u>14,782,423</u>	<u>10,654,548</u>	<u>25,436,971</u>
Revenues over (under) expenditures	(35,416,790)	(14,782,322)	(10,654,445)	(25,436,767)
Other Financing Sources (Uses):				
Proceeds from financing	<u>35,416,790</u>	<u>13,083,315</u>	<u>12,627,092</u>	<u>25,710,407</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (1,699,007)</u>	1,972,647	<u>\$ 273,640</u>
Fund Balance:				
Beginning of year - July 1			<u>(1,699,007)</u>	
End of year - June 30			<u>\$ 273,640</u>	

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ENTERPRISE FUND - ELECTRIC UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Total
Revenues:				
Operating revenues:				
Charges for services	\$ 12,788,003	\$ 12,888,433	\$ 100,430	\$ 12,326,794
Miscellaneous revenues	224,232	118,295	(105,937)	163,423
Total operating revenues	13,012,235	13,006,728	(5,507)	12,490,217
Non-operating revenues:				
Interest income	3,000	8,382	5,382	5,633
Total revenues	13,015,235	13,015,110	(125)	12,495,850
Expenditures:				
Meter reading:				
Salaries and employee benefits	150,830	149,421	1,409	149,493
Operating expenditures	38,105	16,446	21,659	31,278
Capital outlay	-	18,669	(18,669)	1,176,768
Total meter reading	188,935	184,536	4,399	1,357,539
System:				
Salaries and employee benefits	1,097,769	1,056,450	41,319	916,215
Other operating expenditures	1,214,424	1,011,254	203,170	1,458,772
Capital outlay	506,198	421,712	84,486	-
Cost of merchandise sold	7,487,816	6,223,150	1,264,666	6,772,504
Debt service - principal	444,079	444,079	-	438,161
Debt service - interest	66,014	17,987	48,027	21,314
Total system	10,816,300	9,174,632	1,641,668	9,606,966
Total expenditures	11,005,235	9,359,168	1,646,067	10,964,505
Revenues over (under) expenditures	2,010,000	3,655,942	1,645,942	1,531,345
Other Financing Sources (Uses):				
Sale of capital assets	25,000	-	(25,000)	29,570
Transfer from other fund:				
General Fund	10,000	-	(10,000)	-
Transfer to other fund:				
General Fund	(2,277,000)	(2,247,000)	30,000	(1,840,000)
Water & Sewer Fund	-	-	-	(70,219)
Proceeds from issuance of debt	232,000	232,000	-	230,467
Total other financing sources (uses)	(2,010,000)	(2,015,000)	(5,000)	(1,650,182)

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ENTERPRISE FUND - ELECTRIC UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Total
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	1,640,942	\$ 1,640,942	(118,837)
Reconciliation From Budgetary Basis (Modified Accrual) To Full Accrual:				
Change in inventories		(48,030)		46,796
Capital outlay		440,381		1,176,768
Pension expense		18,118		39,481
Contributions to pension plan		(2,885)		(4,467)
Proceeds from issuance of debt		(232,000)		(230,467)
Accrued interest		4,048		(20,599)
OPEB liability		(53,230)		(52,201)
Principal retirement		444,079		438,161
Depreciation expense		(638,140)		(558,497)
Change in net position		\$ 1,573,283		\$ 716,138

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ENTERPRISE FUND - GAS FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Total
Revenues:				
Operating revenues:				
Charges for services	\$ 5,123,031	\$ 4,169,042	\$ (953,989)	\$ 5,096,332
Miscellaneous revenues	67,000	82,188	15,188	69,449
Total operating revenues	<u>5,190,031</u>	<u>4,251,230</u>	<u>(938,801)</u>	<u>5,165,781</u>
Non-operating revenues:				
Interest income	<u>2,500</u>	<u>2,678</u>	<u>178</u>	<u>3,858</u>
Total revenues	<u>5,192,531</u>	<u>4,253,908</u>	<u>(938,623)</u>	<u>5,169,639</u>
Expenditures:				
Salaries and employee benefits	642,111	638,680	3,431	603,271
Other operating expenditures	775,257	680,288	94,969	789,842
Capital outlay	292,513	1,860,076	(1,567,563)	541,800
Cost of merchandise sold	3,130,520	2,084,018	1,046,502	3,052,559
Debt service - principal	278,225	278,225	-	197,357
Debt service - interest	<u>29,502</u>	<u>29,501</u>	<u>1</u>	<u>13,805</u>
Total expenditures	<u>5,148,128</u>	<u>5,570,788</u>	<u>(422,660)</u>	<u>5,198,634</u>
Revenues over (under) expenditures	<u>44,403</u>	<u>(1,316,880)</u>	<u>(1,361,283)</u>	<u>(28,995)</u>
Other Financing Sources (Uses):				
Appropriated from net position	200,000	-	(200,000)	-
Proceeds from issuance of debt	35,597	1,635,597	1,600,000	-
Sales of capital assets	-	12,345	12,345	-
Transfer from other fund:				
General Fund	50,000	-	(50,000)	-
Transfer to other fund:				
General Fund	<u>(330,000)</u>	<u>(330,000)</u>	<u>-</u>	<u>(669,322)</u>
Total other financing sources (uses)	<u>(44,403)</u>	<u>1,317,942</u>	<u>1,362,345</u>	<u>(669,322)</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ENTERPRISE FUND - GAS FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Total
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	1,062	\$ 1,062	(698,317)
Reconciliation From Budgetary Basis (Modified Accrual) To Full Accrual:				
Change in inventories		(33,273)		26,078
Proceeds from issuance of debt		(1,635,597)		-
Capital outlay		1,860,076		541,800
Pension expense		10,066		24,676
Contributions to pension plan		(1,603)		(2,786)
Accrued interest		(4,677)		868
OPEB liability		(31,204)		(26,100)
Principal retirement		278,225		197,357
Depreciation expense		(180,792)		(152,833)
Change in net position		\$ 262,283		\$ (89,257)

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ENTERPRISE FUND - STORMWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Total
Revenues:				
Operating revenues:				
Charges for services	\$ 438,197	\$ 398,667	\$ (39,530)	\$ 375,239
Miscellaneous revenues	-	2,000	2,000	1,000
Total operating revenues	<u>438,197</u>	<u>400,667</u>	<u>(37,530)</u>	<u>376,239</u>
Non-operating revenues:				
Interest income	100	5	(95)	42
Total revenues	<u>438,297</u>	<u>400,672</u>	<u>(37,625)</u>	<u>376,281</u>
Expenditures:				
Salaries and employee benefits	229,324	321,887	(92,563)	269,578
Other operating expenditures	58,433	44,690	13,743	43,128
Capital outlay	115,766	115,766	-	161,940
Debt service - principal	33,750	33,750	-	15,986
Debt service - interest	1,024	1,016	8	-
Total expenditures	<u>438,297</u>	<u>517,109</u>	<u>(78,812)</u>	<u>490,632</u>
Revenues over (under) expenditures	<u>-</u>	<u>(116,437)</u>	<u>(116,437)</u>	<u>(114,351)</u>
Other Financing Sources (Uses):				
Debt issued	-	90,765	90,765	77,380
Transfer from other fund:				
General Fund	-	96,000	96,000	96,000
Total other financing sources (uses)	<u>-</u>	<u>186,765</u>	<u>186,765</u>	<u>173,380</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>70,328</u>	<u>\$ 70,328</u>	<u>59,029</u>
Reconciliation From Budgetary Basis (Modified Accrual) To Full Accrual:				
Proceeds from issuance of debt		(90,765)		(77,380)
Capital outlay		115,766		161,940
Pension expense		6,041		14,850
Contributions to pension plan		(962)		(1,671)
Accrued interest		(935)		(709)
OPEB liability		(18,355)		(6,525)
Principal retirement		33,750		15,986
Depreciation expense		(29,426)		(10,803)
Change in net position		<u>\$ 85,442</u>		<u>\$ 154,717</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2016

	<u>Workers' Compensation Insurance</u>	<u>Health Insurance</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 227,320	\$ 186,509	\$ 413,829
Accounts receivable	-	271,547	271,547
Total assets	<u>227,320</u>	<u>458,056</u>	<u>685,376</u>
Liabilities:			
Accounts payable	27,870	228,045	255,915
Accrued liabilities	3,597	-	3,597
Total liabilities	<u>31,467</u>	<u>228,045</u>	<u>259,512</u>
Net Position:			
Unrestricted	<u>\$ 195,853</u>	<u>\$ 230,011</u>	<u>\$ 425,864</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**INTERNAL SERVICE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Workers' Compensation Insurance</u>	<u>Health Insurance</u>	<u>Total</u>
Operating Revenues:			
Charges for services	\$ 179,671	\$ 2,690,517	\$ 2,870,188
Operating Expenses:			
Excess policy fees	77,731	-	77,731
Administrative fees	15,500	194,602	210,102
Claims	63,546	2,345,966	2,409,512
Total operating expenses	<u>156,777</u>	<u>2,540,568</u>	<u>2,697,345</u>
Operating income (loss)	22,894	149,949	172,843
Non-Operating Revenues:			
Investment income (loss)	<u>294</u>	<u>472</u>	<u>766</u>
Change in net position	23,188	150,421	173,609
Net Position:			
Beginning of year - July 1	<u>172,665</u>	<u>79,590</u>	<u>252,255</u>
End of year - June 30	<u>\$ 195,853</u>	<u>\$ 230,011</u>	<u>\$ 425,864</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Workers' Compensation Insurance</u>	<u>Health Insurance</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Cash received from customers	\$ 179,671	\$ 2,465,173	\$ 2,644,844
Cash paid for goods and services	<u>(158,330)</u>	<u>(2,446,867)</u>	<u>(2,605,197)</u>
Net cash provided (used) by operating activities	<u>21,341</u>	<u>18,306</u>	<u>39,647</u>
Cash Flows from Investing Activities:			
Interest income	<u>294</u>	<u>472</u>	<u>766</u>
Net increase (decrease) in cash and cash equivalents	21,635	18,778	40,413
Cash and Cash Equivalents:			
Beginning of year - July 1	205,685	167,731	373,416
End of year - June 30	<u>\$ 227,320</u>	<u>\$ 186,509</u>	<u>\$ 413,829</u>
Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Net operating income (loss)	<u>\$ 22,894</u>	<u>\$ 149,949</u>	<u>\$ 172,843</u>
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:			
Operating activities:			
(Increase) decrease in operating accounts receivable	-	(225,344)	(225,344)
Increase (decrease) in operating accounts payable and accrued liabilities	<u>(1,553)</u>	<u>93,701</u>	<u>92,148</u>
Total adjustments	<u>(1,553)</u>	<u>(131,643)</u>	<u>(133,196)</u>
Net cash provided (used) by operating activities	<u>\$ 21,341</u>	<u>\$ 18,306</u>	<u>\$ 39,647</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**INTERNAL SERVICE FUND
 WORKERS' COMPENSATION INSURANCE
 SCHEDULE OF REVENUES AND EXPENDITURES -
 FINANCIAL PLAN AND ACTUAL (NON-GAAP)
 FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 179,093	\$ 179,671	\$ (578)
Non-operating revenues:			
Interest income (loss)	<u>240</u>	<u>294</u>	<u>(54)</u>
Total revenues	<u>179,333</u>	<u>179,965</u>	<u>(632)</u>
Expenditures:			
Operating expenditures:			
Excess policy fees	78,000	77,731	269
Administrative fees	15,500	15,500	-
Claims	<u>85,833</u>	<u>63,546</u>	<u>22,287</u>
Total expenditures	<u>179,333</u>	<u>156,777</u>	<u>22,556</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 23,188</u>	<u>\$ 23,188</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**INTERNAL SERVICE FUND
HEALTH INSURANCE
SCHEDULE OF REVENUES AND EXPENDITURES -
FINANCIAL PLAN AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 2,682,283	\$ 2,690,517	\$ (8,234)
Non-operating revenues:			
Interest income	<u>800</u>	<u>472</u>	<u>328</u>
Total revenues	<u>2,683,083</u>	<u>2,690,989</u>	<u>(7,906)</u>
Expenditures:			
Operating expenditures:			
Administrative fees	195,000	194,602	398
Claims	<u>2,567,673</u>	<u>2,345,966</u>	<u>221,707</u>
Total expenditures	<u>2,762,673</u>	<u>2,540,568</u>	<u>222,105</u>
Operating income (loss)	(79,590)	150,421	(230,011)
Other Financing Sources (Uses):			
Appropriated net position	<u>79,590</u>	<u>-</u>	<u>79,590</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 150,421</u>	<u>\$ 150,421</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

TOURISM DEVELOPMENT AUTHORITY BOARD

STATEMENT OF NET POSITION

JUNE 30, 2016

	Tourism Development Authority
Assets:	
Cash and cash equivalents	\$ 138,433
Due from other governments	<u>12,081</u>
Total assets	<u>150,514</u>
Liabilities:	
Accounts payable	<u>487</u>
Net Position:	
Restricted for tourism	<u>\$ 150,027</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**TOURISM DEVELOPMENT AUTHORITY BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Occupancy taxes	\$ 92,000	\$ 120,311	\$ 28,311
Non-operating revenues:			
Investment earnings	<u>60</u>	<u>32</u>	<u>(28)</u>
Total revenues	<u>92,060</u>	<u>120,343</u>	<u>28,283</u>
Expenditures:			
Current:			
Operating expenses	26,260	18,808	7,452
Cultural and recreation	<u>77,300</u>	<u>54,069</u>	<u>23,231</u>
Total expenditures	<u>103,560</u>	<u>72,877</u>	<u>30,683</u>
Revenues over (under) expenditures	(11,500)	47,466	58,966
Other Financing Sources (Uses):			
Appropriated fund balance	<u>11,500</u>	<u>-</u>	<u>(11,500)</u>
Net change in fund balance	<u>\$ -</u>	47,466	<u>\$ 47,466</u>
Fund Balance:			
Beginning of year - July 1		<u>102,561</u>	
End of year - June 30		<u>\$ 150,027</u>	

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Assets:				
Cash and cash equivalents	\$ 220,735	\$ 11,873	\$ 7,260	\$ 225,348
Accounts receivable	<u>6,688</u>	<u>6,600</u>	<u>6,688</u>	<u>6,600</u>
Total assets	<u>\$ 227,423</u>	<u>\$ 18,473</u>	<u>\$ 13,948</u>	<u>\$ 231,948</u>
Liabilities:				
Intergovernmental payable	<u>\$ 227,423</u>	<u>\$ 18,473</u>	<u>\$ 13,948</u>	<u>\$ 231,948</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2016

Fiscal Year	Uncollected Balance July 1, 2015	Additions	Collections and Credits	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 4,654,386	\$ 4,615,954	\$ 38,432
2014-2015	49,001	274	27,593	21,682
2013-2014	19,690	3,702	7,336	16,056
2012-2013	11,583	4,560	4,462	11,681
2011-2012	6,871	3,088	1,426	8,533
2010-2011	4,377	3,296	1,016	6,657
2009-2010	3,994	2,873	351	6,516
2008-2009	3,224	3,754	119	6,859
2007-2008	2,929	3,527	358	6,098
2006-2007	2,086	-	2,086	-
Total	<u>\$ 103,755</u>	<u>\$ 4,679,460</u>	<u>\$ 4,660,701</u>	<u>122,514</u>
Less: Allowance for uncollectible accounts				<u>(63,368)</u>
Ad valorem taxes receivable, net				<u>\$ 59,146</u>
Reconciliation with Revenues:				
Ad valorem taxes:				
General Fund				\$ 4,666,562
Reconciling items:				
Taxes written off				(5,416)
Miscellaneous adjustments				<u>(445)</u>
Total collections and credits				<u>\$ 4,660,701</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
FOR THE YEAR ENDED JUNE 30, 2016

	City-Wide Levy		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$1,163,596,500	\$ 0.40	\$ 4,654,386	\$ 4,390,719	\$ 263,667
Total property valuation	<u>\$1,163,596,500</u>				
Net Levy			4,654,386	4,390,719	263,667
Uncollected taxes at June 30, 2016			<u>(38,432)</u>	<u>(38,432)</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 4,615,954</u>	<u>\$ 4,352,287</u>	<u>\$ 263,667</u>
Current Levy Collection Percentage			<u>99.17%</u>	<u>99.12%</u>	<u>100.00%</u>
Secondary Market Disclosures:					
Assessed valuation:					
Assessment ratio					100%
Real property				\$ 622,615,690	
Personal property				386,741,377	
Public service companies				<u>154,239,433</u>	
Total assessed valuation				<u>\$1,163,596,500</u>	
Tax rate per \$100					0.40
Levy (includes discoveries, releases, and abatements)					<u>\$ 4,654,386</u>

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

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

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kings Mountain, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 11, 2016. Our report includes a reference to other auditors who audited the financial statements of the City of Kings Mountain ABC Board, as described in our report on the City of Kings Mountain, North Carolina's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the City of Kings Mountain ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kings Mountain'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 City of Kings Mountain's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. As described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2016-002, 2016-003, and 2016-004 to be material weaknesses.

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. As described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2016-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kings Mountain's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-002 and 2016-003.

City of Kings Mountain's Responses to Findings

The City of Kings Mountain's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Kings Mountain's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 11, 2016

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

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

Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance With OMB Uniform Guidance; And The State Single Audit Implementation Act

Independent Auditor's Report

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

Report On Compliance for Each Major Federal Program

We have audited the City of Kings Mountain, North Carolina's, compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Kings Mountain's major federal programs for the year ended June 30, 2016. The City of Kings Mountain's major federal programs are identified in the summary of auditor's 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 programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Kings Mountain's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Kings Mountain'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 each major federal program. However, our audit does not provide a legal determination of the City of Kings Mountain's compliance.

Opinion On Each Major Federal Program

In our opinion, the City of Kings Mountain complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report On Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a 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 non-compliance 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 a 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 material weaknesses or significant deficiencies. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 11, 2016

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance to GAAP Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency identified? Yes

Non-compliance material to financial statements noted? Yes

Federal Awards

Internal control over major federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a) No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA #</u>
----------------------------	----------------------

Drinking Water State Revolving Fund Cluster	66.468
---	--------

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
---	-----------

Auditee qualified as low-risk auditee?	No
--	----

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

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

Significant Deficiency

Finding 2016-001

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

Condition: Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board requires a level of technical expertise not possessed by the City's personnel with regards to drafting full accrual, full disclosure financial statements.

Cause: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above is cost prohibitive.

Effect: The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules.

Context: City personnel cannot draft full disclosure GAAP financial statements.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2015-001.

Recommendation: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears cost prohibitive. Therefore, the City should exercise due care in reviewing the financial statements drafted by the external auditor, as the City is responsible for the accuracy of the audited financial statements.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding. Management feels the technical expertise of their new Finance Director, hired subsequent to the preparation of the June 30, 2016 financial statements, will remedy this finding. The new Finance Director has extensive experience preparing full accrual full disclosure financial statements.

Material Weakness

Finding 2016-002

Criteria: Management should have a control system in place to reduce the likelihood that violations of North Carolina General Statutes occur and go undetected. N.C. General Statute 159-8(a) requires that all money received and expended by a local government should be included in the budget ordinance.

Condition: In the current year, there were violations of the N.C. General Statute 159-8(a). Expenditures exceeded appropriations and, therefore, a failure in the pre-audit requirement. The budget amendment and pre-audit process was not effective.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Cause: Inadequate budget monitoring by management. The City expended more than had been budgeted in the budget ordinance for tourism and development, gas operations, and stormwater operating expenditures.

Effect: The City was in violation of North Carolina General Statutes.

Context: While reviewing financial statements and budget reports, we noted the condition described above.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2015-002.

Recommendation: Implement stringent budgetary monitoring controls to prevent expenditures exceeding appropriations.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding and will adhere to the corrective action plan on Corrective Action Plan page following this schedule.

Material Weakness

Finding 2016-003

Criteria: Management should have a control system in place to reduce the likelihood that violations of North Carolina General Statutes occur and go undetected. N.C. General Statute 159-32 requires that all monies collected or received by officers and employees be deposited daily unless the governing board has approved that a deposit does not have to be made until the amount on hand is over \$250. Regardless, a deposit must be made on the last business day of the month.

Condition: Deposits for shoreline leases are not being made daily to the financial institution. The Finance Officer was unsure whether the Council had approved cash funds to be held until it reaches \$250 before a deposit is made. Regardless, we noted that deposits were made uniformly every 3 days, which means that deposits may go over \$250 and not be taken to the bank.

Cause: Collections are taking place without adequate controls over cash receipts to be in compliance with State statutes.

Effect: The City was in violation of North Carolina General Statutes.

Context: While performing walkthrough procedures, we noted the condition described above.

Recommendation: Cash deposits should be made in accordance with City policies. City policies should be aligned with State statutes to be in compliance.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding and will adhere to the corrective action plan on Corrective Action Plan page following this schedule.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Material Weakness

Finding 2016-004

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

Condition: A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. The existence of such material adjustments indicated that the City's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

Cause: The general ledger is not reconciled to subsidiary ledgers on a regular basis, and year-end journal entries are not booked.

Effect: Financial reports used for budget monitoring throughout the year do not properly reflect the account balances.

Context: While performing audit procedures, we noted the condition described above.

Recommendation: Management should examine the adjustments required as a result of our audit and assess the cost/benefit of improving the internal control system to prevent the adjustments in the future, given the City's available resources.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding and will adhere to the corrective action on Corrective Action Plan page following this schedule.

2. Findings and Questioned Costs Related to the Audit of Federal Awards

None reported

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2016

Significant Deficiency

Finding 2016-001

Name of contact person: Rhonda Petty, Interim Finance Officer

Corrective Action: Management recently hired a new Finance Director, subsequent to the preparation of the June 30, 2016 financial statements. The new Finance Director has extensive experience preparing full accrual full disclosure financial statements under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board. Management feels their hire will remedy this finding.

Proposed Completion Date: N/A, completed as of the report date.

Material Weakness

Finding 2016-002

Name of contact person: Rhonda Petty, Interim Finance Officer

Corrective Action: Management will implement stringent budgetary monitoring controls to prevent expenditures from exceeding appropriations. Management will take greater care to ensure all items are booked/encumbered at year-end and that proper budget amendments are made and approved prior to expenditures being incurred.

Proposed Completion Date: Management will implement the above procedure immediately.

Material Weakness

Finding 2016-003

Name of contact person: Rhonda Petty, Interim Finance Officer

Corrective Action: Management will revamp procedures to ensure all funds are deposited as required by the NC General Statutes and communicate these requirements to the appropriate employees.

Proposed Completion Date: Management will implement the above procedure immediately.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2016**

Material Weakness

Finding 2016-004

Name of contact person: Rhonda Petty, Interim Finance Officer

Corrective Action: Management will put procedures in place to ensure that sub ledgers are reconciled to the general ledger timely. Reconciliations will require secondary approval by the Finance Director or Assistant Finance Director. Month end checklists will be revised and/or prepared, and responsibilities will be assigned to the appropriate staff. Care will be taken at year end to review preliminary trial balances, and make any necessary adjustments, prior to the submission of the final trial balance to the external auditors.

Proposed Completion Date: Management will implement the above procedure immediately.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Finding 2015-001

Status: Management will diligently review financial data to ensure agreement with audited financial statements. The City has recently hired personnel, subsequent to the report date, who has the technical expertise to draft full accrual, full disclosure financial statements. The finding is repeated in the current year.

Corrective action: Management feels the technical expertise of their new Finance Director, hired subsequent to the preparation of the June 30, 2016 financial statements, will remedy this finding. The new Finance Director has extensive experience preparing full accrual full disclosure financial statements.

Finding 2015-002

Status: Management will diligently review budgetary data to ensure compliance with North Carolina General Statutes in the future. The finding is modified and repeated in the current year.

Corrective action: Management will more closely monitor budget and put additional procedures in place to ensure any necessary budget amendments are made prior to the authorization/approval of expenditures.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-Through Grantor's Number</u>	<u>Fed. (Direct & Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Pass-Through to Subrecipients</u>
Federal Grants:					
Cash Programs:					
<u>U.S. Dept. of Health and Human Services</u>					
Passed-through Isothermal Planning and Development Commission:					
Aging Cluster:					
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	10-1776695	\$ 54,897	\$ -	\$ -
Total Aging Cluster:			<u>54,897</u>	<u>-</u>	<u>-</u>
Passed-through the N.C. DHHS Administration for Community Living:					
State Health Insurance Assistance Program	93.324		4,180	-	-
Medicare Enrollment Assistance Program	93.071		1,340	-	-
<u>U. S. Department of Justice</u>					
Bulletproof Vest Partnership Program	16.607	2015BUBX15075921	6,321	-	-
<u>Institute of Museum and Library Services</u>					
Passed-through Division of State Library:					
Grants to States	45.310	LS-00-15-0034-15	43,118	-	-
Noncash Programs:					
<u>U.S. Environmental Protection Agency</u>					
Passed-through N.C. Department of Environmental Quality: Drinking Water State Revolving Fund Cluster (note 3):					
Capitalization Grants for Drinking Water State Revolving Fund	66.468	H-LRX-R-DW-1784F, H- LRX-R-DW-1785F	19,866,927	-	-
Total Drinking Water State Revolving Fund Cluster			<u>19,866,927</u>	<u>-</u>	<u>-</u>
Total assistance - federal programs			<u>19,976,783</u>	<u>-</u>	<u>-</u>
State Grants:					
Cash Assistance:					
<u>N.C. Department of Natural and Cultural Resources:</u>					
State Aid to Public Libraries		XXXX	-	8,676	-
<u>N.C. Department of Transportation:</u>					
Powell Bill			-	313,642	-
<u>N.C. Rural Development Center:</u>					
FY 12/13 Building Reuse & Restoration Fund Downtown Revitalization		2013-081-60501-107	-	96,107	-
<u>N.C. Department of Aging:</u>					
Senior Center General Purpose Grant		NC-03	-	3,947	-
Total assistance - State programs			<u>-</u>	<u>422,372</u>	<u>-</u>
Total assistance			<u>\$ 19,976,783</u>	<u>\$ 422,372</u>	<u>\$ -</u>

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**Notes to the Schedule of Expenditures of Federal and State Financial Awards:****Note 1: Basis of Presentation**

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and State grant activity of the City of Kings Mountain under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the City of Kings Mountain, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Kings Mountain.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

Note 3: Loans Outstanding

The City of Kings Mountain had the following loan balances outstanding at June 30, 2016 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2016 consist of:

<u>Program Name</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Amount Outstanding</u>
Capitalization Grants for Drinking Water State Revolving Fund Cluster:			
H-LRX-R-DW-1784F	66.468	XXXX	\$ 9,366,009
H-LRX-R-DW-1785F	66.468	XXXX	<u>9,692,785</u>
			<u>\$ 19,058,794</u>

This page left blank intentionally.